

European Banking Barometer – 2015

Reflecting a challenged industry



EY

Building a better
working world

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Introduction

The *European Banking Barometer* provides an overview of the macro-economic outlook and its impact on the European banking industry, as well as the priorities banks will focus on over the next 12 months.

Now in its sixth edition, the latest survey consists of 226 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 during November and December 2014. Respondents were interviewed 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 help ensure the study was a fair reflection of each country's banking industry. Interviews were not conducted with subsidiaries of member or group banks.

The results in this report are presented in an aggregate market format and shown in percentages. Aggregated European-wide results have been weighted in proportion to countries' banking assets. All country-level data is unweighted.

Please note that some charts may not add up to 100%, and net increase totals may differ slightly from the numbers shown in the charts, as percentages have been rounded to the nearest whole number. Where possible, we have compared and contrasted the data with that in our *European Banking Barometer – 2014*.**

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

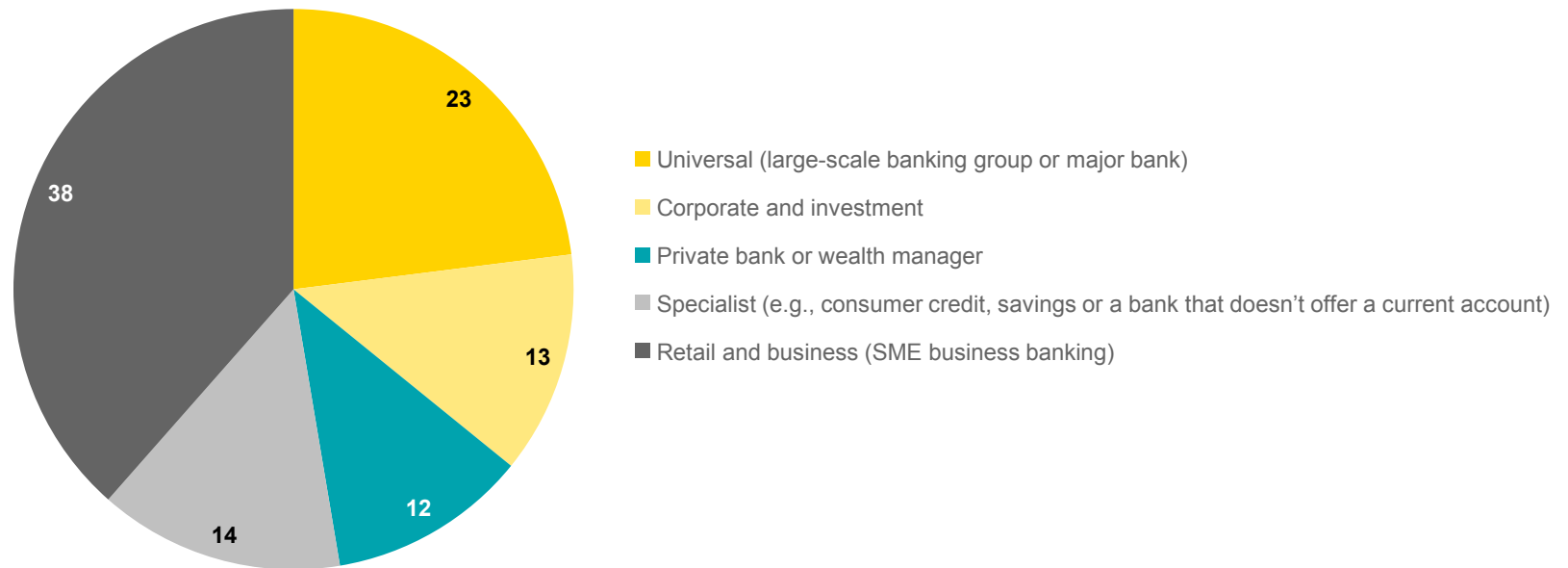
If you would like to take part in our next *European Banking Barometer* study, please speak to your usual EY contact or refer to your local country contact on page 46.

* Austria represents 31% of its market's banking assets.

** The *European Banking Barometer – 2014* was conducted in March and April 2014, and respondents were asked about their six-month outlook, whereas the *European Banking Barometer – 2015* is based on respondents' 12-month outlook.

Composition of the survey sample by bank type

Bank type*



* Numbers in the pie chart reflect the percentage of respondents who answered. Percentages were calculated using unweighted data.

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: In Germany, big banks and regional banks were reallocated to universal banks; foreign banks (not headquartered in Germany) were reallocated to corporate and investment banks; private bankers were reallocated to private banks or 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. In 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 or wealth management	Specialist	Retail and business (cooperative)	Retail and business (state owned)	Retail and business (privately owned)
Austria	6	4	0	1	0	1	0	0
Belgium	21	5	2	4	1	1	1	7
France	11	5	1	0	2	1	1	1
Germany	50	9	1	3	9	9	17	2
Italy	20	5	2	0	3	8	1	1
Netherlands	7	2	1	0	3	0	1	0
Nordics	16	6	3	1	2	0	0	4
Poland	13	8	3	1	0	0	1	0
Spain	9	1	1	0	0	2	1	4
Switzerland	42	2	1	14	6	4	8	7
UK	31	5	14	2	6	1	1	2
Europe**	226	52	29	26	32	27	32	28

* 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: In Germany, big banks and regional banks were reallocated to universal banks; foreign banks (not headquartered in Germany) were reallocated to corporate and investment banks; private bankers were reallocated to private banks or 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.

In 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 or wealth management; cantonal banks, and regional and savings banks were reallocated to retail and business banks; and securities traders were reallocated to specialist banks.

** European totals in the table reflect the unweighted number of respondents who answered. All European aggregated percentages in the report are weighted in proportion to markets' banking assets, as reported by *The Banker* database in June 2014 and *SNL Financial*. All market level figures in this report reflect unweighted data.

European overview

The prospects for a European economic recovery are weaker than in 2014, but most bankers remain positive about their own institution's performance. The broad-based optimism about the economy seen in our previous edition has evaporated: just over a third of bankers now expect the economy to strengthen, and more than a quarter anticipate a deterioration in outlook.

Despite this, most bankers still expect their institution's financial performance to improve – but only slightly, as institutions continue to grapple with a complex and evolving regulatory agenda. With the industry still struggling to deliver sustainable returns, pay expectations are more modest than in 2014.

The economic recovery will be weaker, but the (gradual) improvement in banks' financial performance will continue.

- ▶ In 2014, 64% of respondents expected the economic outlook to improve. In our latest survey, just 38% do. Furthermore, 27% now believe that the economic outlook will deteriorate.
- ▶ Despite this, 56% of respondents still believe that the financial performance of their own bank will improve, compared with 60% in 2014. Bankers remain most positive about the outlook for private banking and wealth management; 62% believe the outlook is good for that segment. More than half of respondents also thought the outlook was good for retail banking, corporate banking, and debt and equity issuance.
- ▶ We estimate that, unless banks exceed the 3.5% revenue growth and 1.6% cost reduction they anticipate, they are likely to improve return on equity (ROE) by only around half of the 1.6% they hope to achieve.

European overview

The industry is now more resilient, supporting lending growth, but banks will continue to adjust their funding profiles.

- ▶ Bankers continue to expect corporate lending policies to become less restrictive across most sectors in the coming year, and 51% expect to increase lending to customers. However, as banks continue to de-risk their balance sheets, the transport, financial services, construction and commercial real estate sectors will face further restrictions.
- ▶ Banks are increasingly likely to seek funding through wholesale markets, which are now easier to access, and as ultra-low interest rates in Europe make deposit funding expensive. Forty-seven percent of respondents believe they are now more likely to seek wholesale funding, compared with 42% in 2014. By contrast, just 35% of respondents expect to introduce incentives to increase customer deposits, compared to 51% last year.

Although banks continue to look for opportunities to grow, risk and regulation remain banks' top priorities.

- ▶ Launching initiatives to promote growth remains a key focus for many European banks: half of bankers expect this to be an area of increased focus in 2015. However, when considering banks' overall list of priorities, innovation and growth activities are eclipsed by cost reduction and efficiency initiatives, and risk and regulatory programs. As a result, banks will continue to invest in technology as they continue to streamline process, strengthen cybersecurity and tackle financial crime.
- ▶ Risk and regulation will remain firmly at the top of bankers' priorities in 2015. Seventy-one percent of respondents see risk management as particularly important, compared with 56% in 2014. Capital, liquidity and the leverage ratio will receive even greater attention in the coming year as the Financial Stability Board progresses its consultation on Total Loss Absorbing Capital (TLAC).
- ▶ Although reputational risk is the third most important priority for banks for 2015, developing new remuneration systems, which many see as a key driver of cultural transformation across the industry, and central to mitigating conduct risk are ranked 21st.

European overview

Post-AQR industry restructuring will gather pace, but sector consolidation remains some way off.

- ▶ Sector restructuring had slowed ahead of the ECB's comprehensive assessment but, following the exercise's completion, banks are now once more reassessing their business and geographic footprints. Asset disposals and acquisitions are likely to be driven by the structural reform agenda, with 41% of universal banks expecting to sell assets.
- ▶ Acquisitions are likely to be small in scale and focused on strengthening core businesses and existing capabilities. Significant sector consolidation remains unlikely: just 28% of banks expect large- or medium-scale consolidation in the coming year. Although 53% of bankers expect significant consolidation within three years, this has fallen from 65% in 2014.

The pace of job cuts is picking up, and pay expectations are beginning to reflect a challenged industry.

- ▶ Forty-three percent of bankers expect headcount to fall, compared with 38% in our last survey, with headcount reductions focused in operations and IT, other head-office functions and retail banking. The UK is the only market where more respondents expect headcount to rise than fall.
- ▶ The combination of low growth, continued industry restructuring and further job cuts means bankers are now less optimistic about the prospects for industry pay. Although 22% of respondents expect aggregate pay to increase, 19% expect it to fall. Notably, although 4% expected aggregate pay to increase by over 10% in 2014, none do this year. In fact, 10% of respondents now anticipate a double-digit reduction in pay.

Section 1

Economic environment

Bankers are now less positive about the prospect of an economic recovery, but expectations differ widely by market

How do you expect the general economic outlook in your market to change over the next 12 months?*

2015



2014



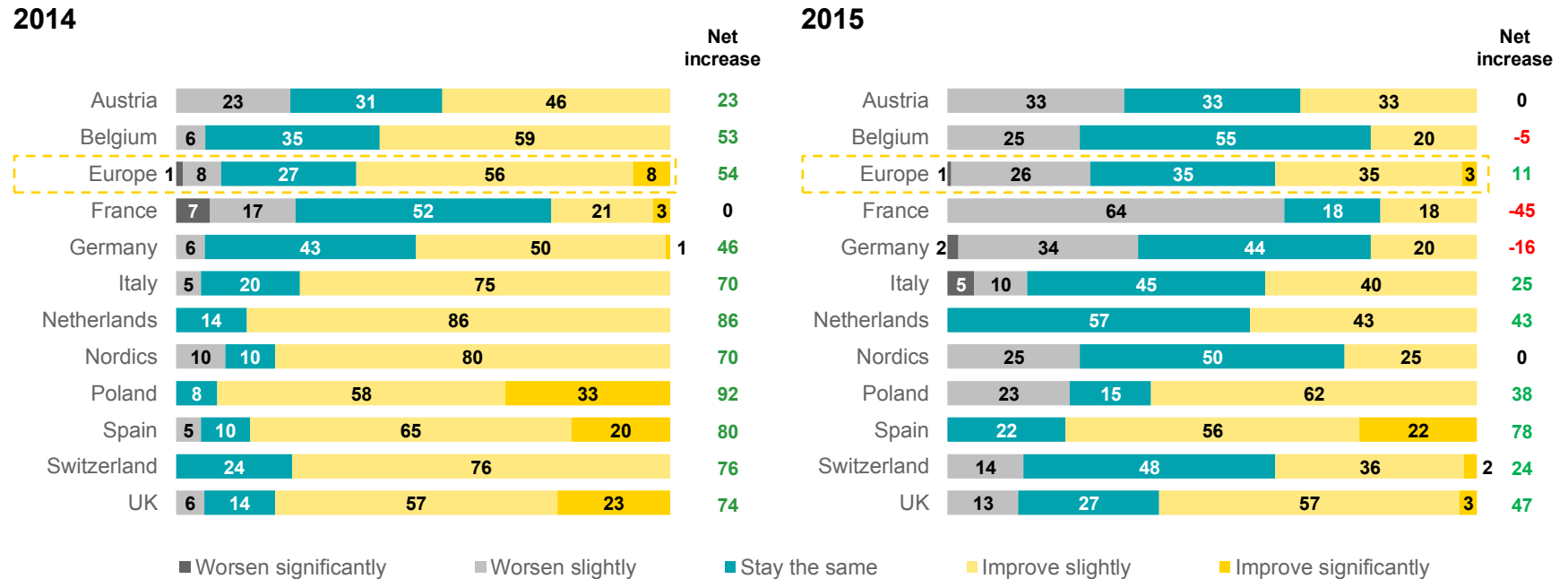
■ Worsen significantly ■ Worsen slightly ■ Stay the same ■ Improve slightly ■ Improve significantly

Comments: Optimism about the economic recovery had been increasing in the previous three editions of our *European Banking Barometer*. This edition highlights a stark reversal of that trend, pointing to a slowing economic recovery. This is in line with the International Monetary Fund's (IMF's) recent downward revision of Euro Area growth prospects for 2015. Just 38% of respondents expect the economic outlook to improve, compared with 64% in 2014. Furthermore, 28% expect the economic outlook to deteriorate, compared with just 9% in 2014. However, expectations vary between markets. While the bankers in the UK, Poland and Spain anticipate a stronger economy, driven by a mixture of rising consumption, investment and employment, more Belgian, French and German bankers expect their economy to contract than to grow.

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

Two-thirds of French bankers expect the economic outlook to worsen, but 78% of Spanish bankers expect it to improve

How do you expect the general economic outlook in your market to change over the next 12 months?*



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

Section 2

Business outlook and focus areas

Despite a weaker economic outlook, most bankers still expect their institution's financial performance to improve ...

How do you expect your bank's financial performance to change over the next 12 months?*

2015



2014



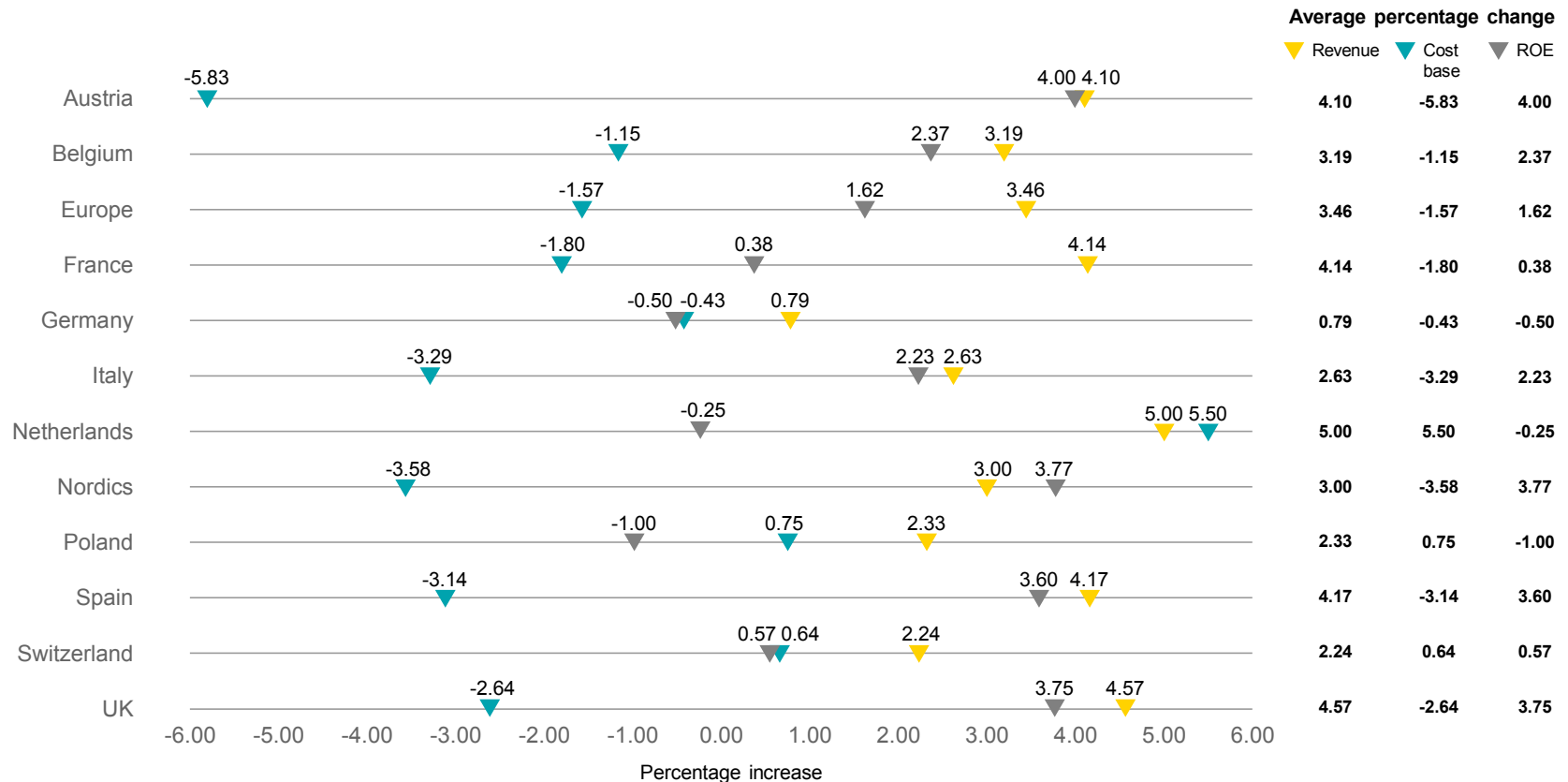
■ Weaken significantly ■ Weaken slightly ■ Stay the same ■ Strengthen slightly ■ Strengthen significantly

Comments: Cost reduction and revenue growth initiatives will gather pace, yet banks will still struggle to deliver even the modest improvement in ROE they anticipate. Across Europe, bankers expect costs to fall by an average of 1.57% – more than three times the cost reduction anticipated last year. Similarly, anticipated revenue growth of 3.46% exceeds last year's expectation. Although respondents hope that these improvements will deliver an average improvement of 1.62% in ROE, EY analysis suggests that they will only boost ROE by around half that amount. Furthermore, European banks would need to reduce costs by about 21% and grow revenues simultaneously by 15% just to achieve their average cost of equity (9.4%). Bankers in Poland, the Netherlands and Germany actually anticipate a slight fall in ROE. By contrast, bankers in Spain, the UK, the Nordics and Austria all expect ROE increases in excess of 3.5%.

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

... but ROE growth will remain modest as banks continue to struggle to cut costs or grow revenues significantly

How do you expect your bank's performance measures to change over the next 12 months?*

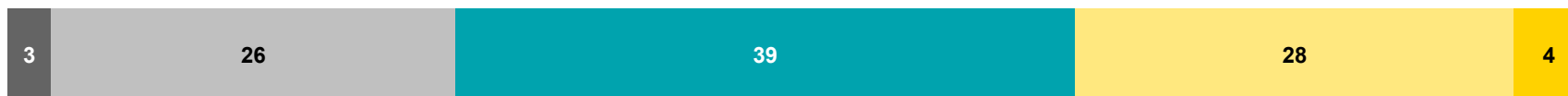


* Numbers reflect the mean percentage change expected. Base excludes respondents who answered "Don't know."

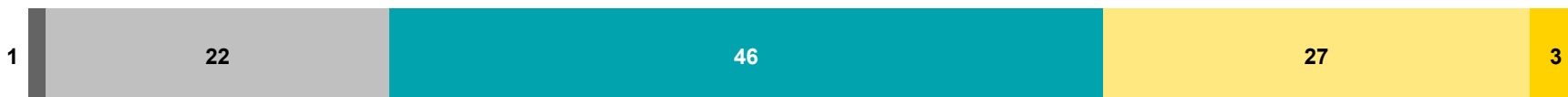
Almost one-third of bankers still expect to increase their loan loss provisions ...

Over the next 12 months, what do you expect your bank's total provisions against loan losses to do?*

2015



2014



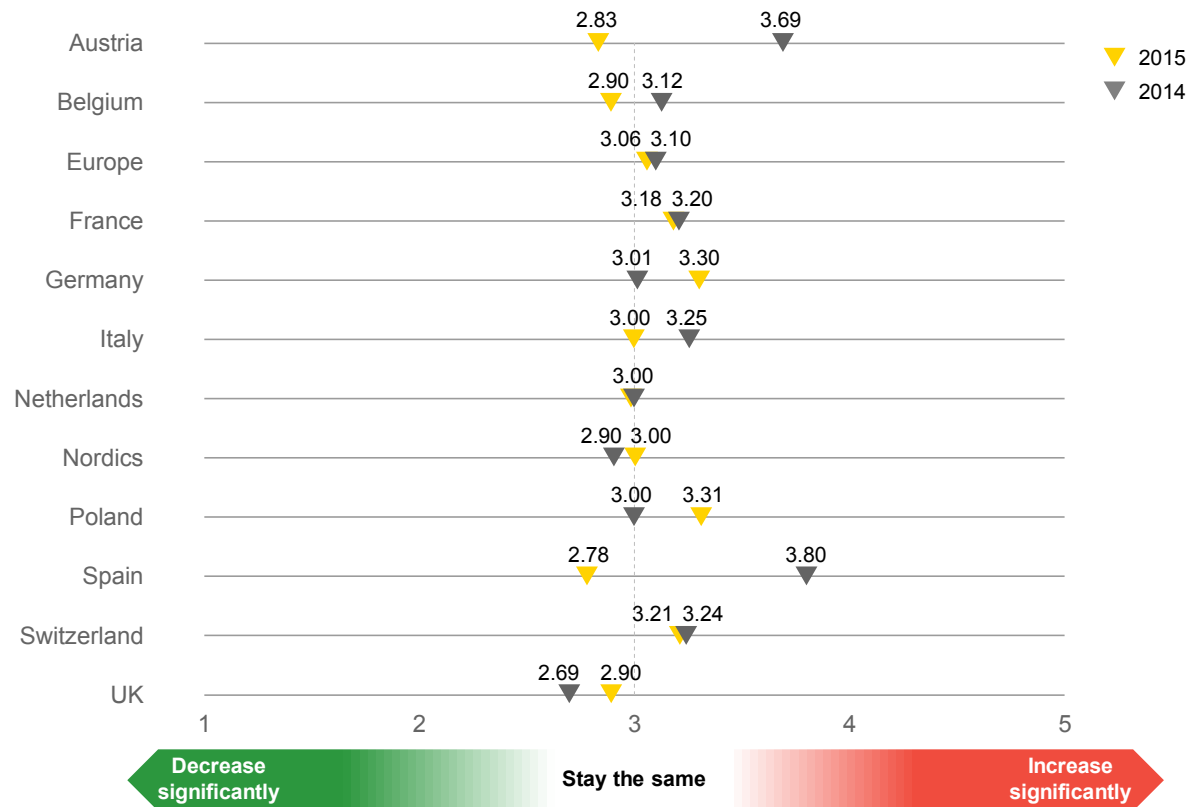
■ Decrease significantly ■ Decrease slightly ■ Stay the same ■ Increase slightly ■ Increase significantly

Comments: Slightly more banks now expect to raise loan loss provisions (LLPs) than in 2014. Provisions are likely to rise as banks move to comply with IFRS 9, a new accounting standard due to take effect on 1 January 2018. Under the IFRS 9 standard on financial instruments, a new expected-loss impairment model will require banks to recognize not only credit losses that have already occurred, but also losses that are expected in the future. It is likely that the effect of the higher provisions will be moderate for banks that use an internal approach to calculating regulatory capital; however, the impact will be greater for banks using the Basel standardized approach. Despite this, with many European banks having significantly strengthened their balance sheets to ensure they passed last year's ECB Asset Quality Review (AQR), 29% now expect to be able to release provisions to improve their financial performance, compared with just 23% in our previous survey.

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

... but bankers in Austria, Belgium, Spain and the UK expect to release provisions, which may boost financial performance

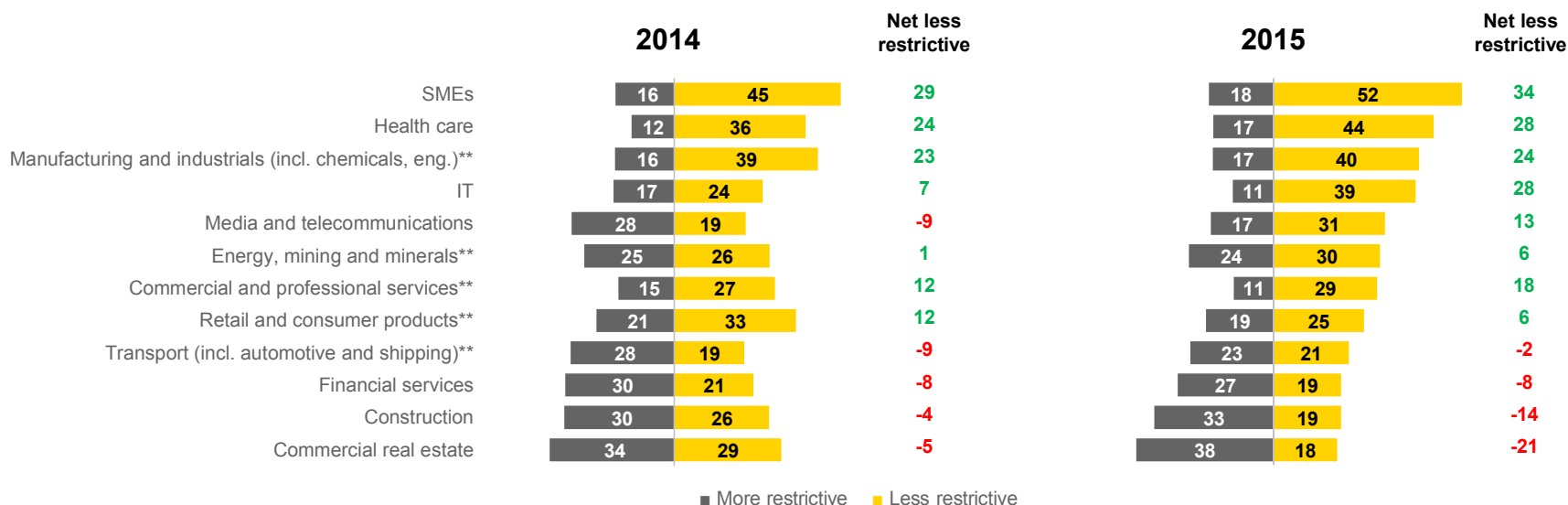
Over the next 12 months, what do you expect your bank's total provisions against loan losses to do?*



* 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." Base excludes respondents who answered "Don't know."

Stronger balance sheets will allow banks to loosen lending policies 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 12 months?*



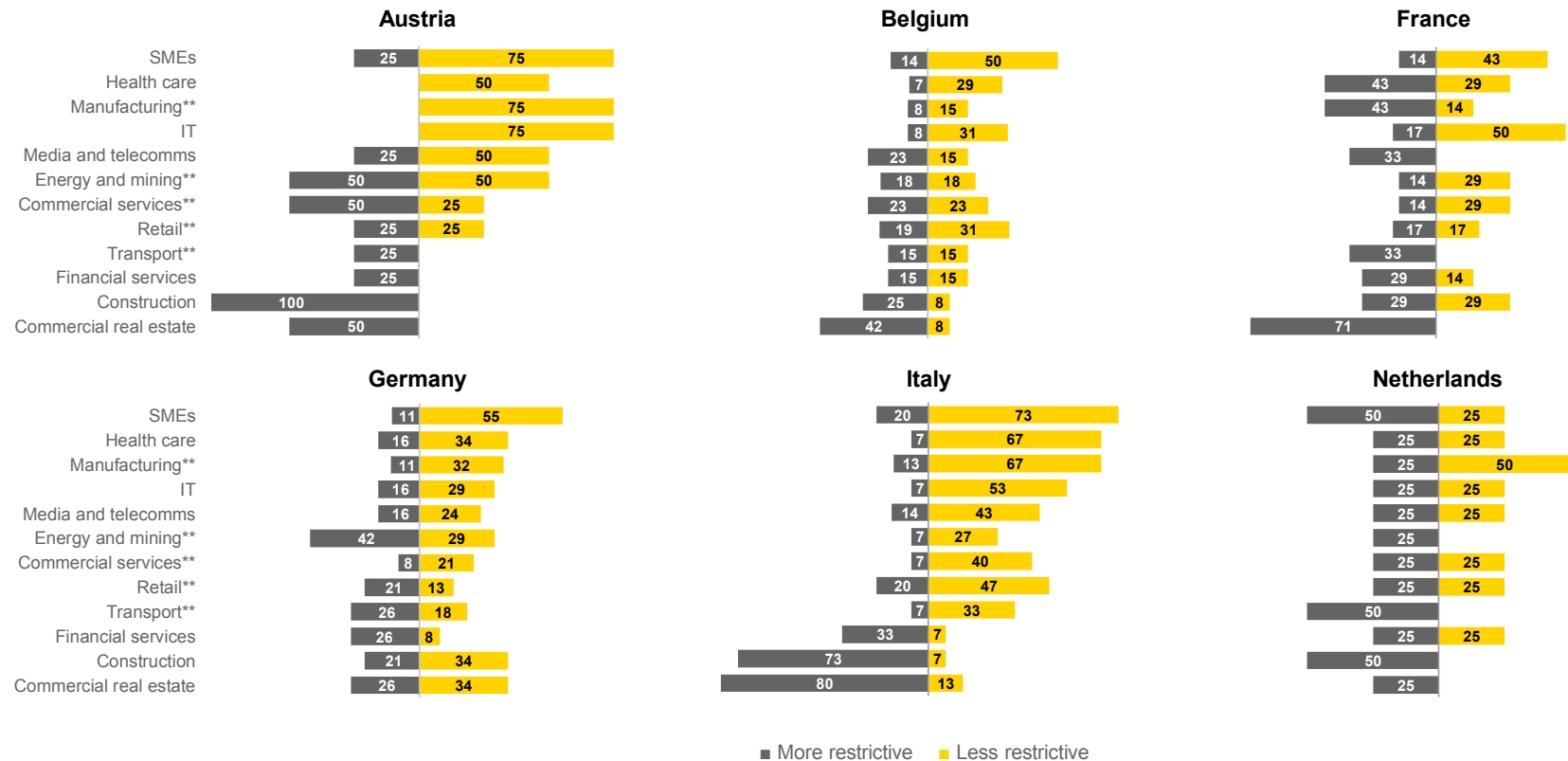
Comments: Despite a weaker economic outlook, bankers continue to expect corporate lending policies to become less restrictive across most sectors in the coming year. As a result of recent regulatory and supervisory actions, which have contributed to improvements in banks' funding conditions, and improved capital and liquidity positions, banks are now better positioned to expand corporate lending. However, the transport, financial services, construction and commercial real estate sectors will face further restrictions, as banks continue to de-risk their balance sheets and reduce their exposure to riskier or more capital intensive sectors. For example, the CRD IV Net Stable Funding Ratio makes it less attractive to provide longer-term loans to sectors such as shipping.

* Numbers reflect the percentage of respondents who answered. Respondents answering "Remain unchanged" 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.

Lending policies for SMEs are expected to be less restrictive in all markets except the Netherlands

How do you expect the corporate lending policies of banks in your market to change in each of the following sectors over the next 12 months?*

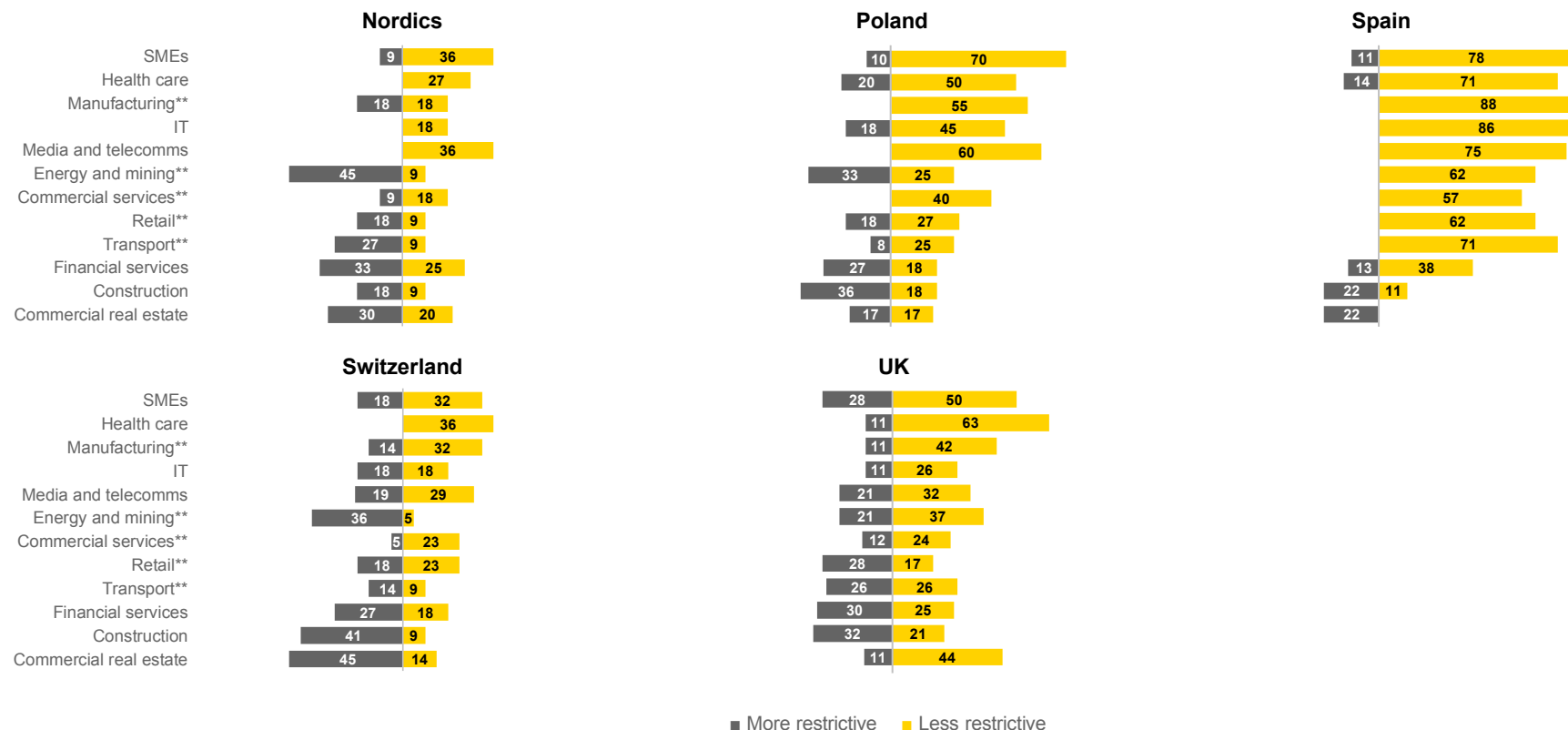


* Numbers reflect the percentage of respondents who answered. Respondents answering "Stay the same" are not displayed. Base excludes respondents who answered "Don't know."

** 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.

Lending policies for commercial real estate is expected to be less restrictive in the UK

How do you expect the corporate lending policies of banks in your market to change in each of the following sectors over the next 12 months?*

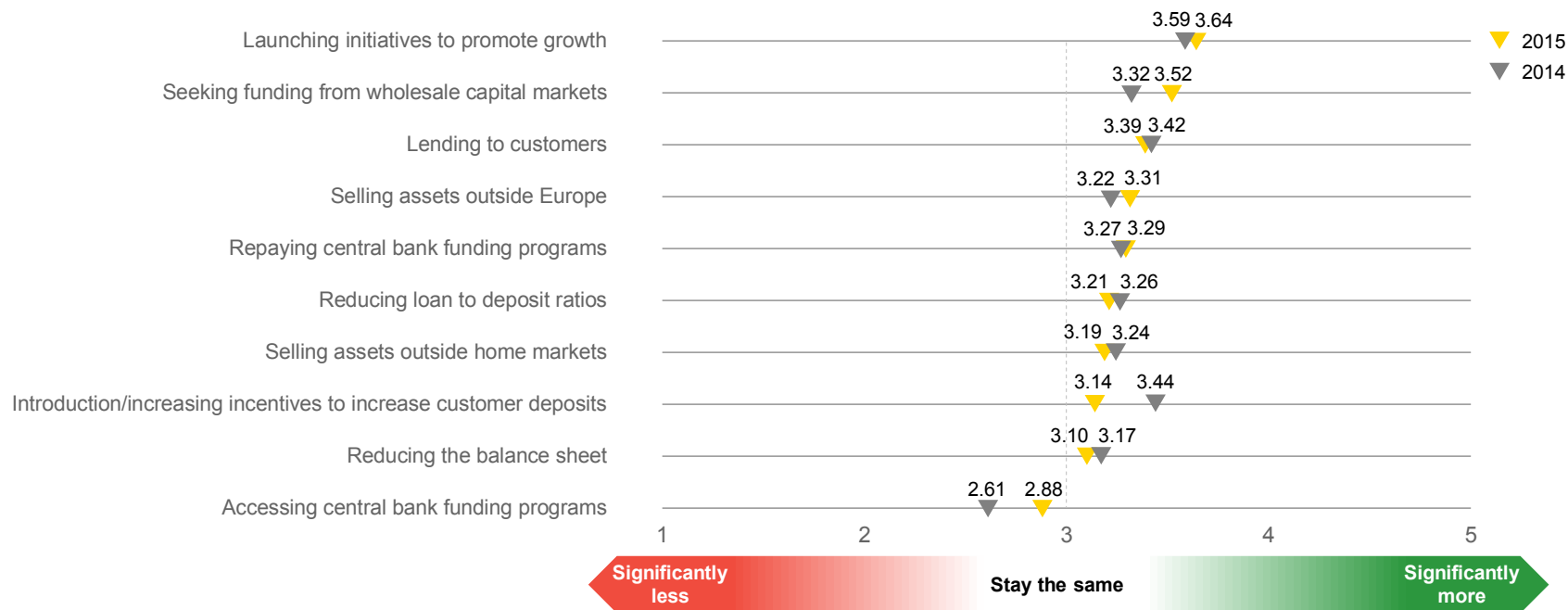


* Numbers reflect the percentage of respondents who answered. Respondents answering "Stay the same" are not displayed. Base excludes respondents who answered "Don't know."

** 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.

Banks continue to prioritize growth and moving away from retail funding to cheaper wholesale funding

How likely are the banks in your market to be engaged in the following activities over the next 12 months?*

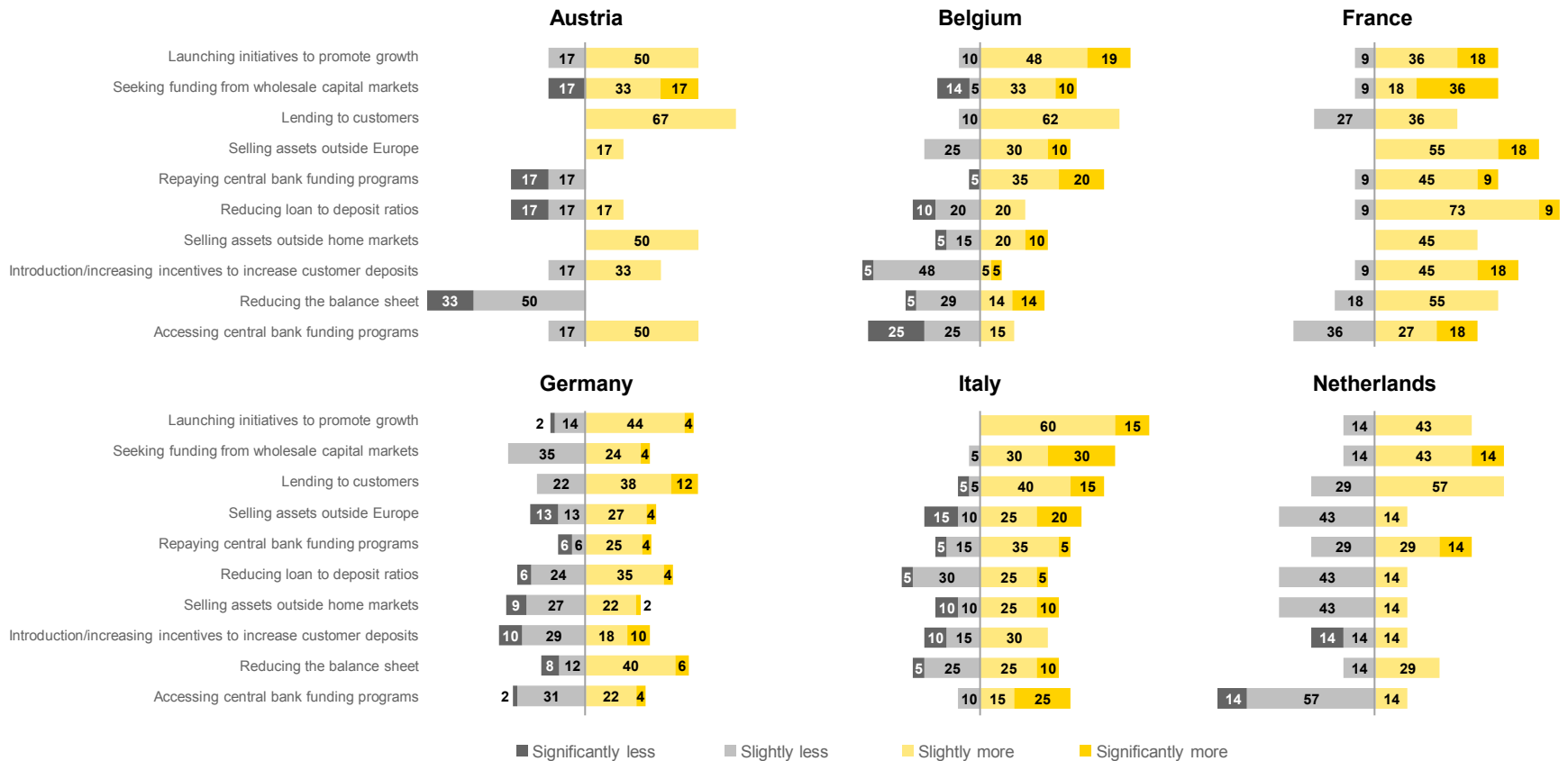


Comments: Growth remains a key priority for European banks. Fifty-nine percent of respondents believe banks in their markets are more likely to launch growth initiatives this year, while 51% also expect to increase lending. Banks will also rebalance their funding mix toward wholesale funding. Capital markets are now easier to access, while deposit funding has become more expensive due to ultra-low interest rates in the Euro Area; as a result, just 35% of respondents expect to introduce incentives to increase customer deposits, compared with 51% last year.

* 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."

More than three-quarters of respondents in Italy plan to launch initiatives to promote growth

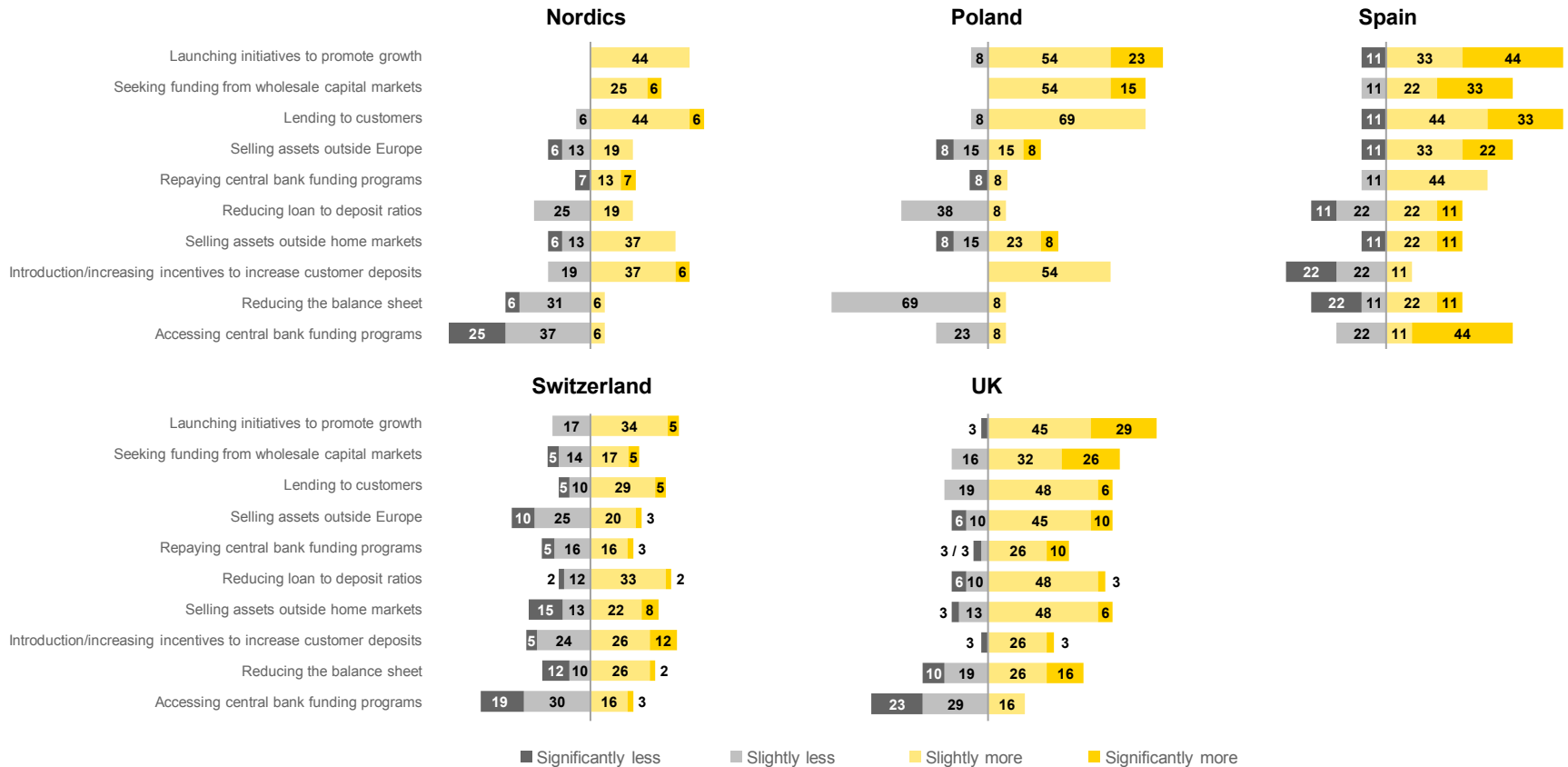
How likely are the banks in your market to be engaged in the following activities over the next 12 months?*



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

More than 74% of Polish, Spanish and British respondents are planning to launch new initiatives to promote growth

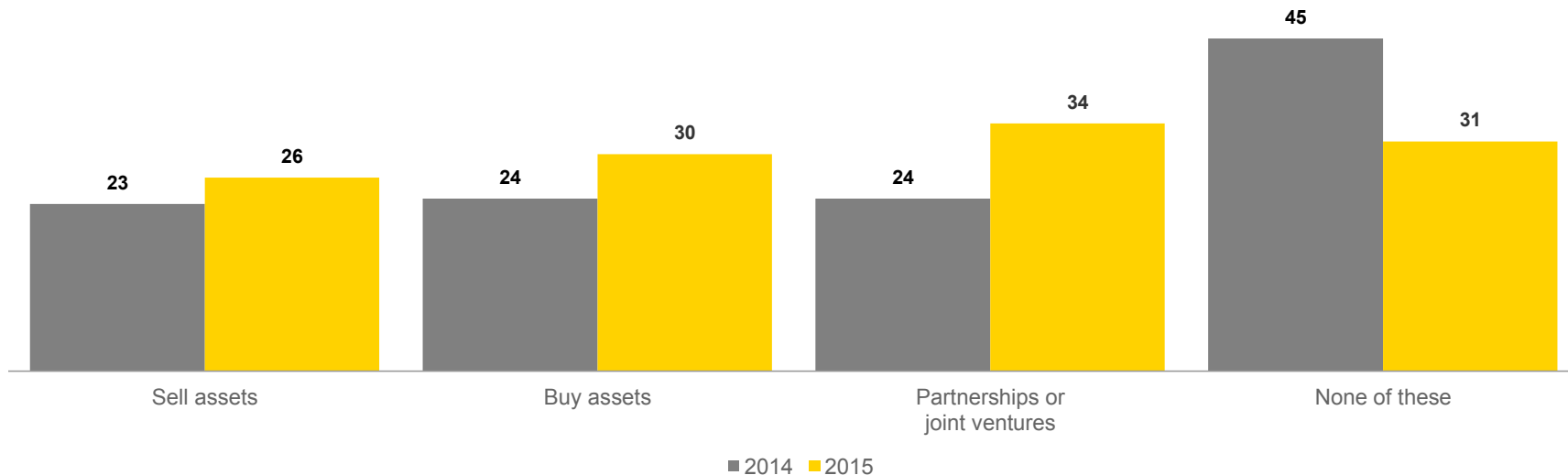
How likely are the banks in your market to be engaged in the following activities over the next 12 months?*



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

Following the ECB's comprehensive assessment, sector restructuring is expected to gather pace ...

Which, if any, of the following is your bank likely to consider over the next 12 months in relation to the countries in which it operates?*

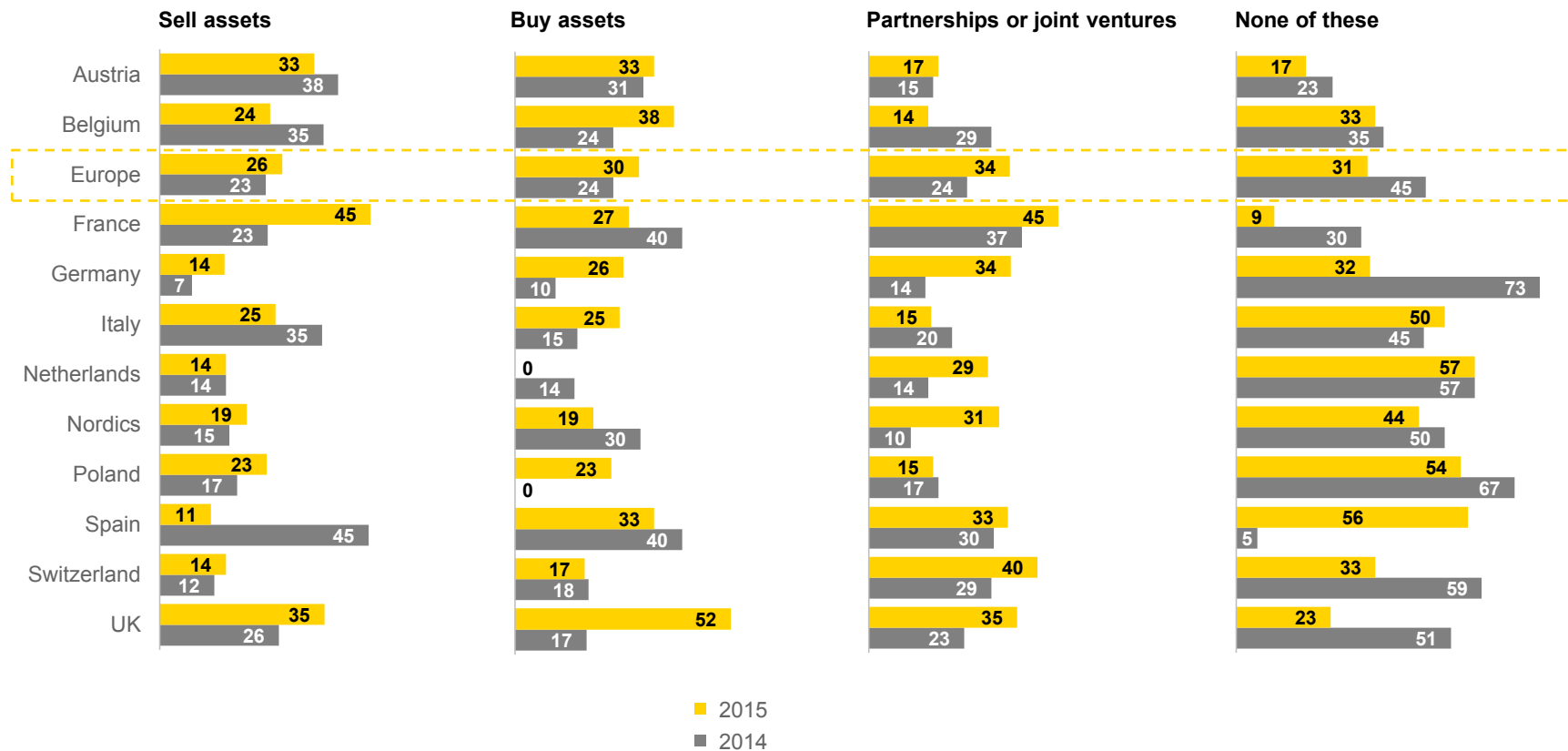


Comments: Sector restructuring had slowed ahead of the AQR and stress test. Following the comprehensive assessment, banks are once more reassessing their business and geographic footprints. The structural reform agenda will be a key driver of this activity, with 41% of universal banks expecting to sell assets, compared with 33% of corporate and investment banks, and just 20% of retail banks. Redefining the core activities of a bank will also be crucial to delivering improved profitability for institutions in the longer term (see *Global banking outlook 2015: Transforming banking for the next generation*). The weaker economic outlook means profitable growth will be hard to achieve organically. As a result, banks are now more likely to consider inorganic growth opportunities. However, as Basel III requires banks to hold additional capital against stakes in other financial institutions, acquisitions are likely to be of specific books of business, rather than of major operations. Partnerships are the preferred form of inorganic growth and, notably, banks are now more likely to consider partnerships in North America, and less likely to consider them in the Asia-Pacific region, than in 2014. This reflects the sustained economic recovery in the US, and concerns about the economic outlook for China and its impact on regional growth.

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

... with more than half of bankers in the UK considering acquisitions and 45% in France considering divestments

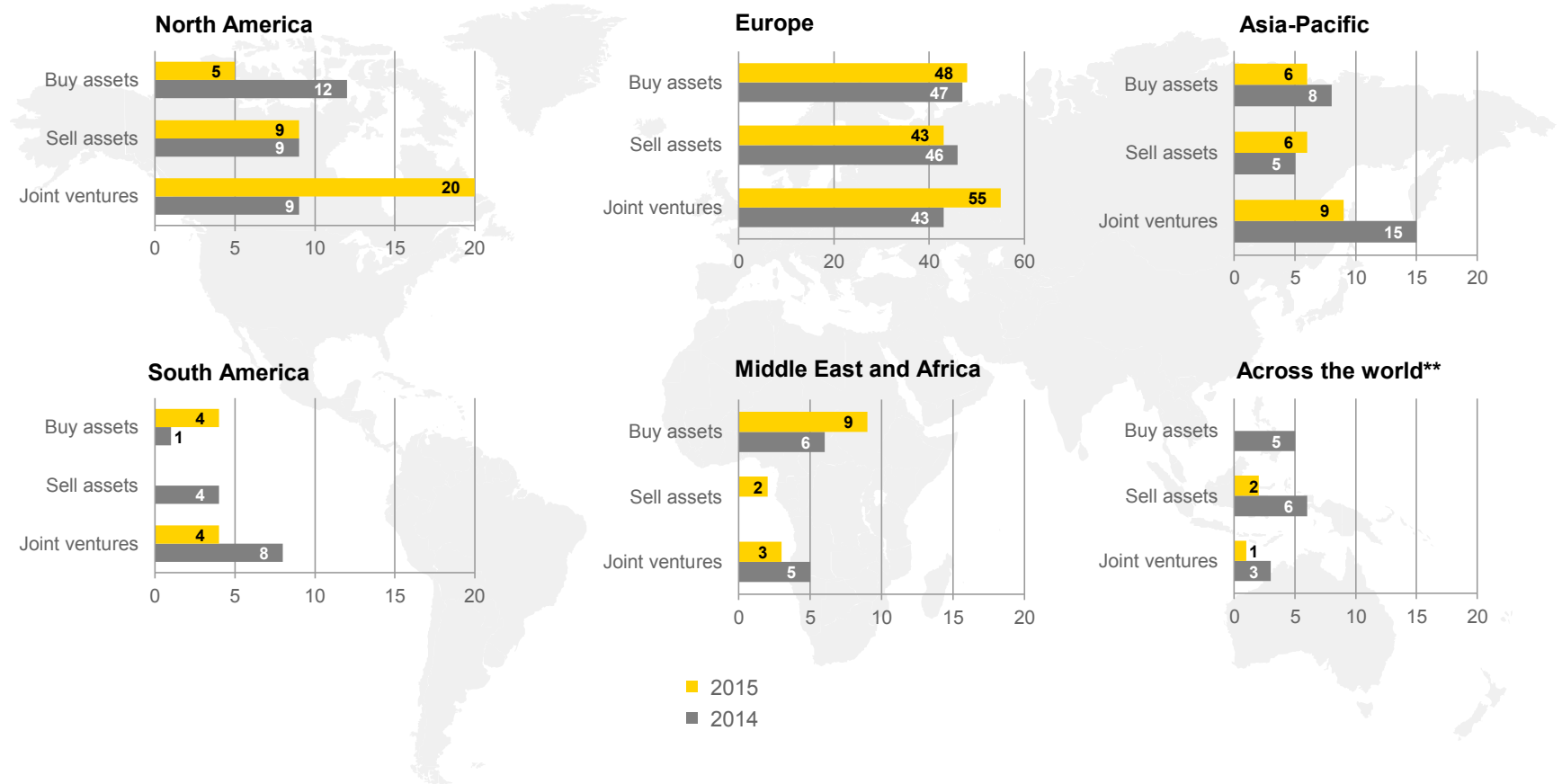
Which, if any, of the following is your bank likely to consider over the next 12 months in relation to the countries in which it operates?*



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

North America has eclipsed Asia-Pacific as the focus for expansion beyond Europe

In which regions is your bank likely to sell assets, buy assets or consider joint ventures over the next 12 months?*

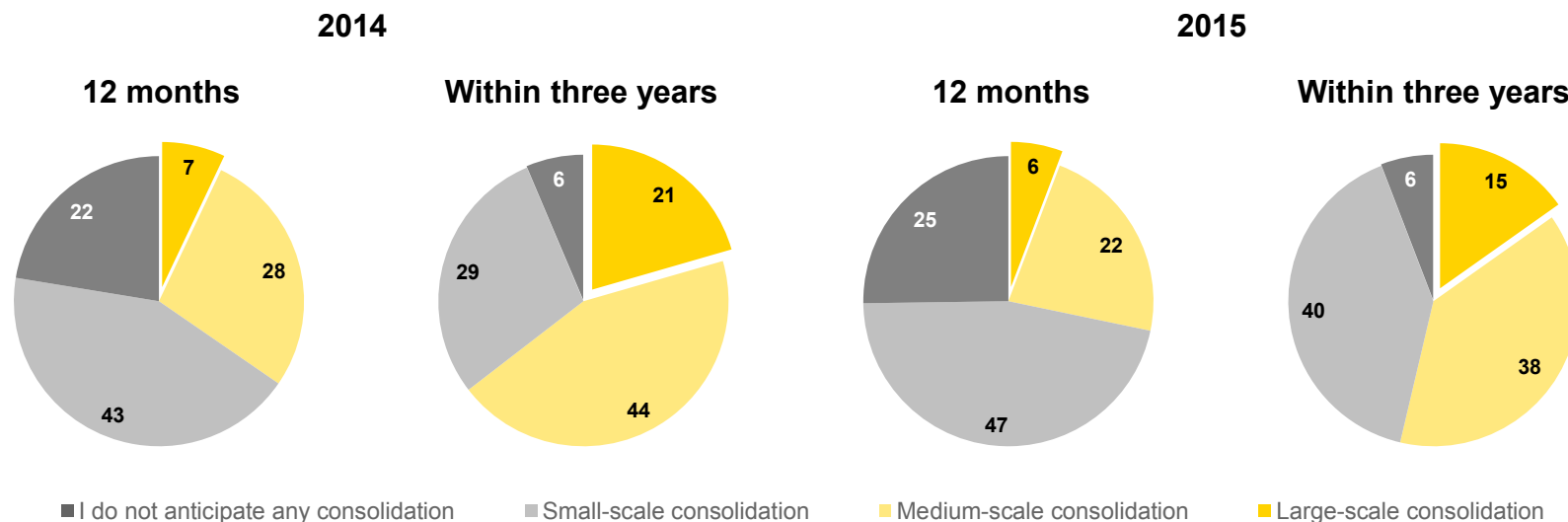


* Numbers represent the total number of mentions for that particular region. Respondents could state more than one region.

** Includes responses for "Rest of the world" and "Worldwide."

Despite the growing pace of restructuring, fewer bankers now expect significant consolidation across the industry

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

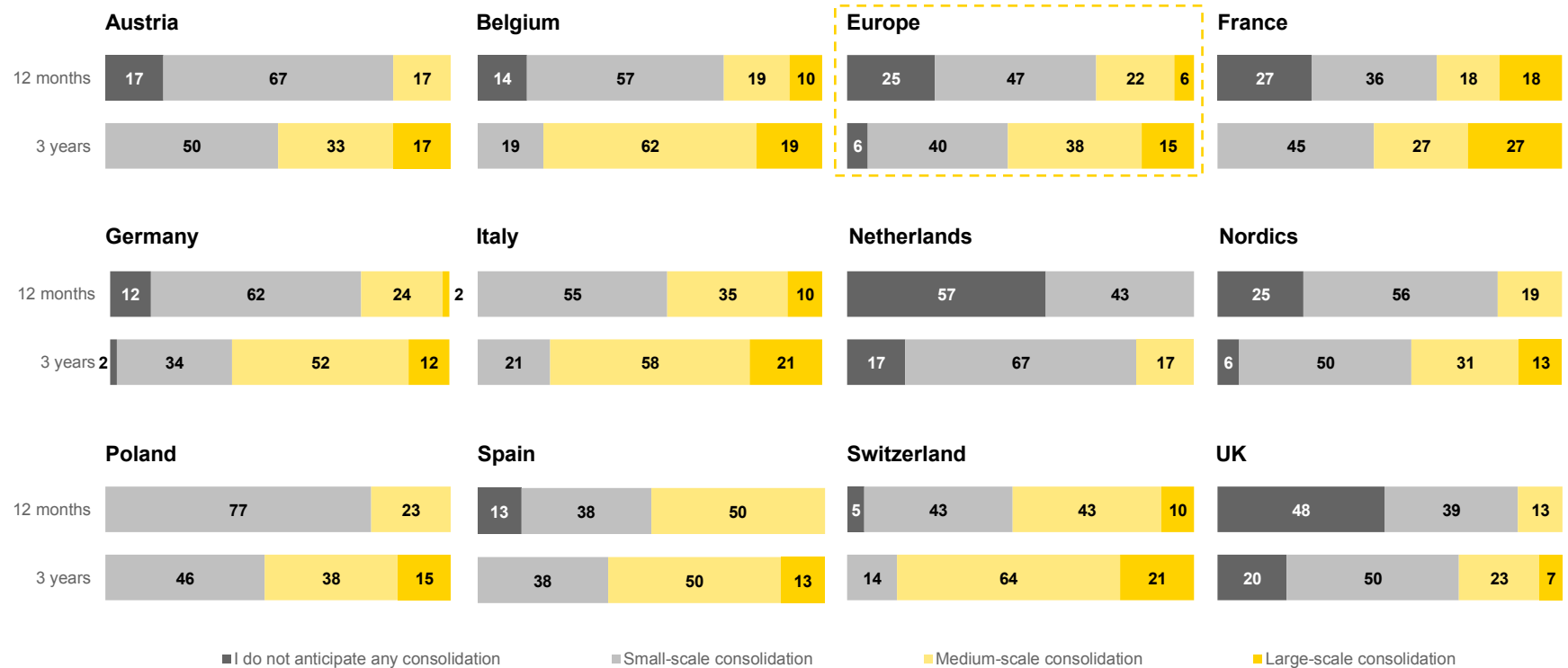


Comments: Over three-quarters of respondents anticipate some industry consolidation in the next year, and 94% expect some consolidation within the next three years. Most of this activity will be small in scale, suggesting banks will continue to restructure and generally only make disposals or acquisitions of small books of business that are closely aligned to their core strategy. The evolving regulatory landscape means many banks remain cautious of significant acquisitions in the short term, with just 28% of banks expecting medium- or large-scale consolidation in the coming year. Furthermore, although 53% of bankers expect significant consolidation within the next three years – with the greatest consolidation anticipated in markets where banks were shown to have capital shortfalls or where there is overcapacity – this has fallen from 65% in 2014.

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

In the next three years, the greatest consolidation is expected in the Belgian, German, Italian and Swiss banking sectors

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. Base excludes respondents who answered "Don't know."

Section 3

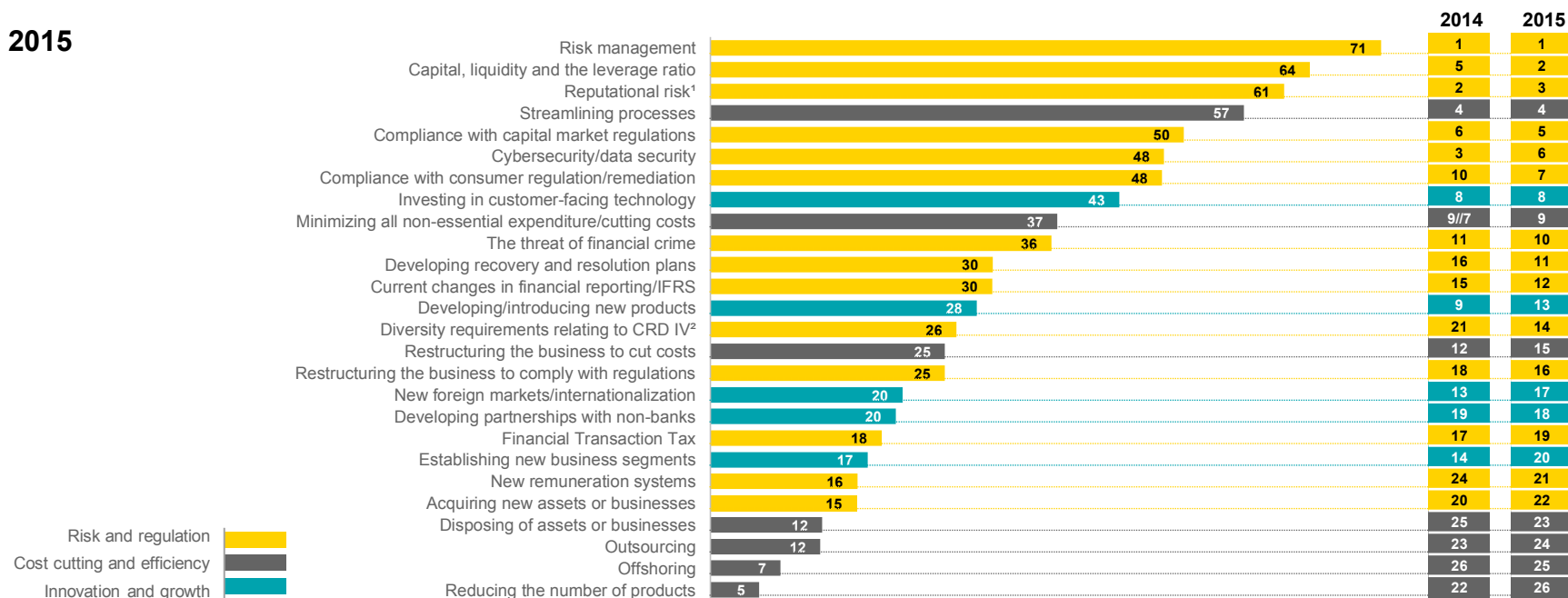
Business priorities and product line expectations

Risk and regulation remain at the top of banks' agendas

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

2015

Rank order of importance

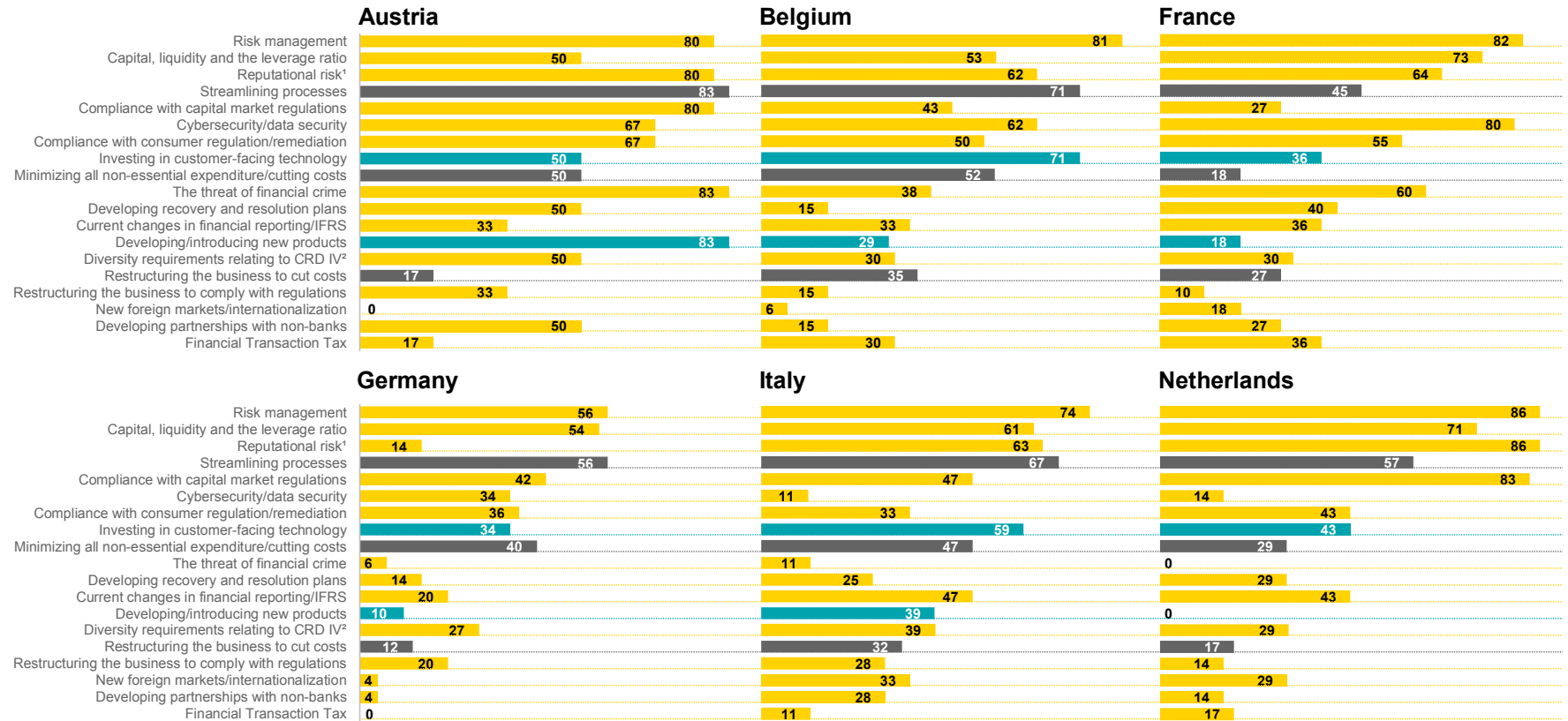
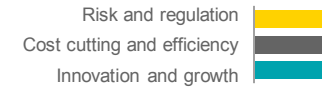


Comments: An ever-increasing regulatory burden means risk and regulation remain firmly at the top of bankers' priorities in 2015. Risk management is cited as particularly important by 71% of respondents, compared with 56% in 2014. With the recent comprehensive assessment giving banks greater clarity on prudential expectations, combined with new proposals for increasing banks' TLAC, capital, liquidity and the leverage ratio is now the second most important priority for bankers. It is notable that, while reputational risk is the third most important priority for banks in 2015, development of the new remuneration systems that many see as a key driver of cultural transformation across the industry – and central to mitigating conduct risk – are ranked 21st. Banks will also continue to invest in technology as they continue to streamline process, strengthen cybersecurity and tackle financial crime.

* 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." In the *European Banking Barometer – 2014* "Cutting costs" was listed as an individual answer and was ranked seventh.
¹ Reputational risk includes tax transparency; compliance with capital markets regulations, i.e., MIFID II or EMIR; and investing in new customer-facing technology, e.g., mobile solutions.
² Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

Banks across Europe are also refocusing on efficiency, at the expense of innovation and growth initiatives

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.

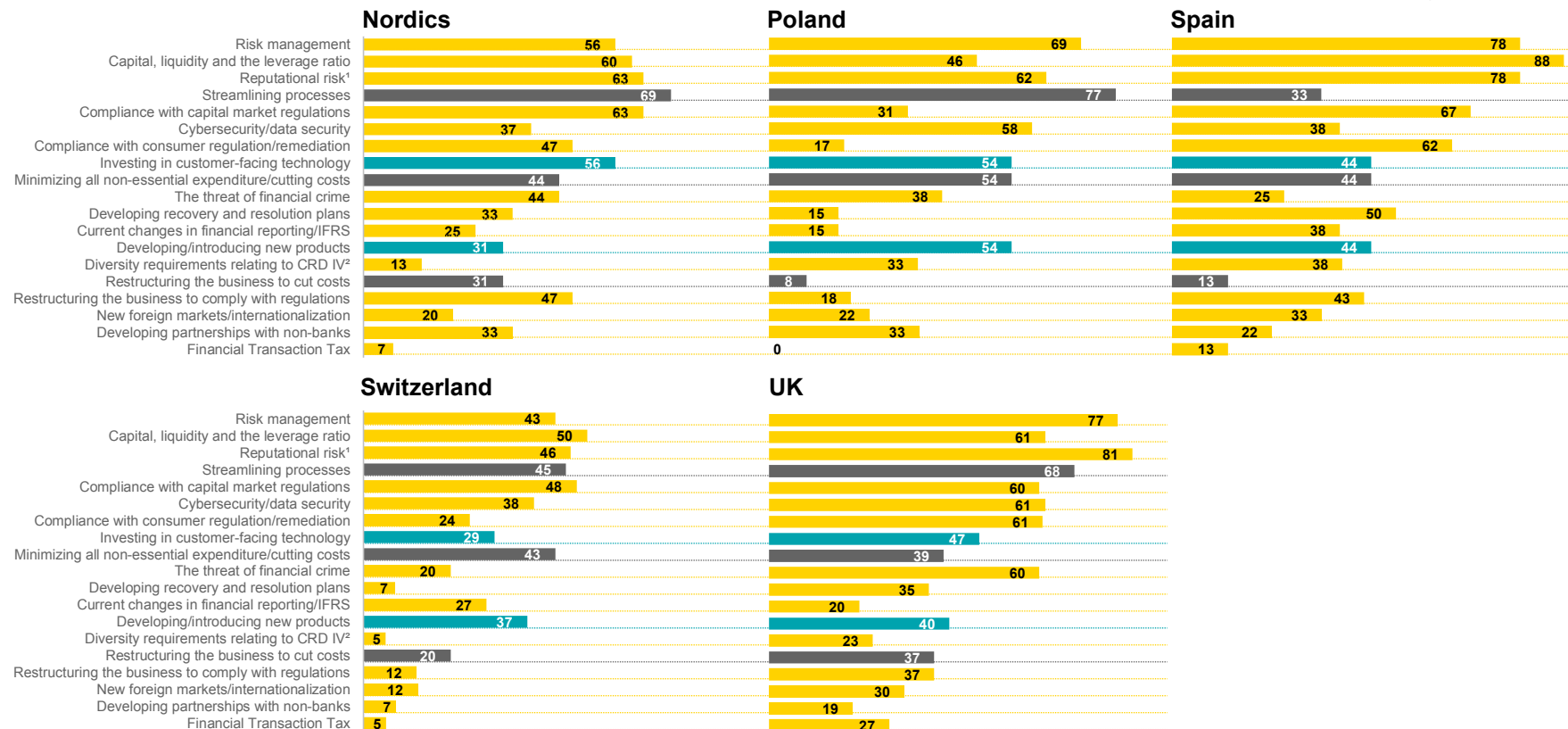
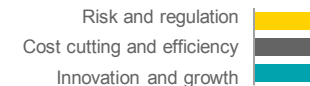
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² Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

Cybersecurity and combatting finance crime will be a key priority for banks in the UK, France and Austria

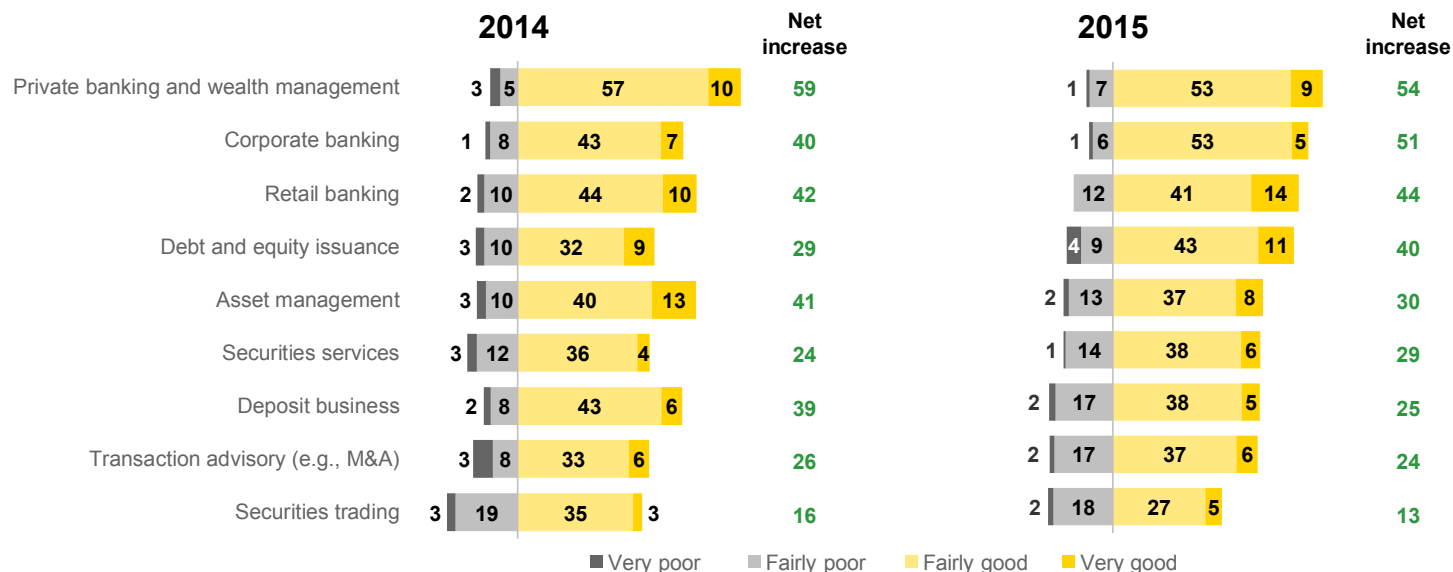
Rank the importance of the following agenda items for your organization*



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² Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

Bankers continue to anticipate an improved outlook for all business lines ...

How do you rate the outlook for your bank over the next 12 months in each of the following business lines?*



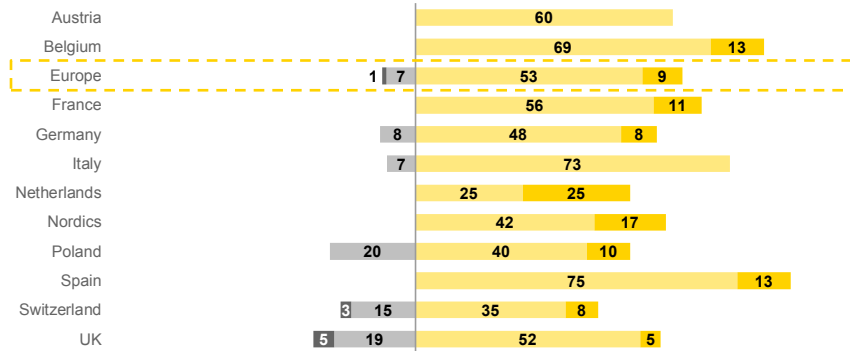
Comments: Bankers remain most optimistic about the outlook for private banking and wealth management. As highlighted in our previous edition, it is an attractive segment, given its capital-light business model and the fact it is a growing market. More surprisingly, given the weak economic outlook, most bankers also expect an improved outlook for retail and corporate banking. However, the ECB's low base rate and quantitative easing (QE) should enable banks to improve margins while lending to customers that are good credit risks. The most improved outlook is for debt and equity issuance. Increased capital markets activity is likely as QE boosts demand for capital markets funding from non-financial corporations. In addition, there is likely to be significant capital raising by those financial institutions that failed the comprehensive assessment, as well as by other institutions in anticipation of TLAC requirements. Unsurprisingly, following the ECB's introduction of a negative deposit rate in June 2014, the outlook for deposit business is also less positive than last year. The outlook is least positive for securities trading, a business line that is grappling with transformative regulation of Dodd Frank, EMIR and MiFID II.

* Numbers reflect the percentage of respondents who answered. Respondents answering "Neither good, nor poor" are not displayed. Base excludes respondents answering "Does not apply" or chose not to answer.

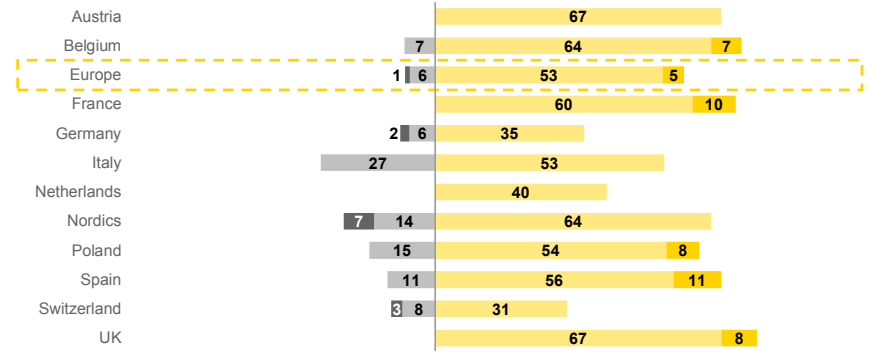
... with the strongest performance expected in wealth management, retail and corporate banking

How do you rate the outlook for your bank over the next 12 months in each of the following business lines?*

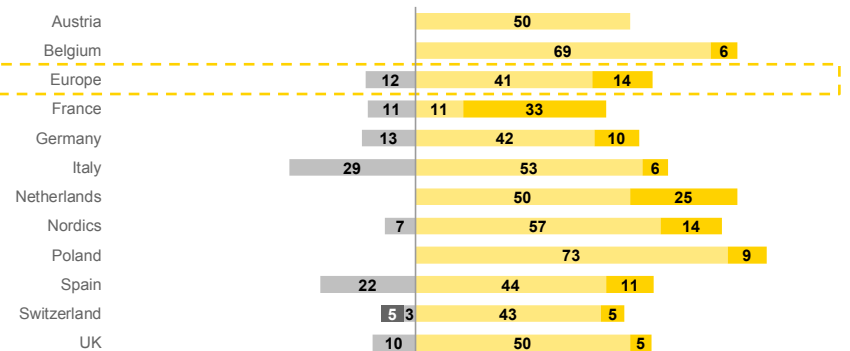
Private banking and wealth management



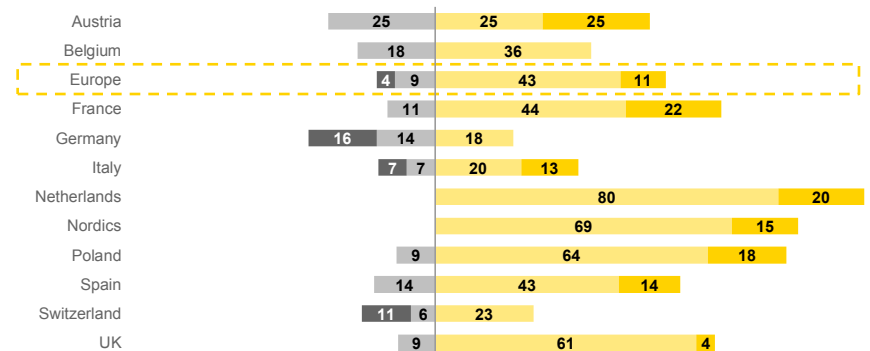
Corporate banking



Retail banking



Debt and equity issuance



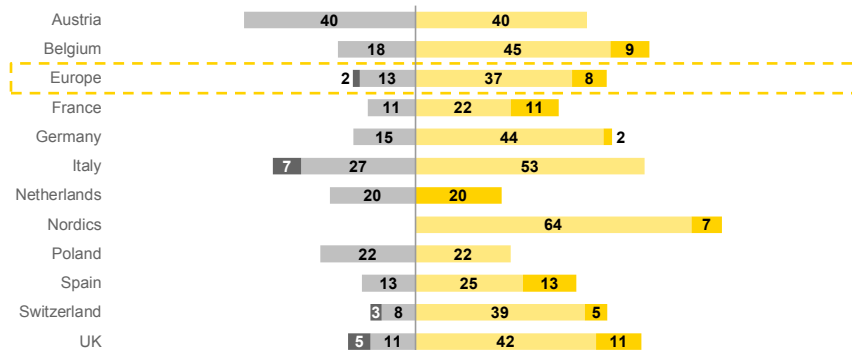
■ Very poor ■ Fairly poor ■ Fairly good ■ Very good

* Numbers reflect the percentage of respondents who answered. Respondents answering "Neither good, nor poor" are not displayed. Base excludes respondents answering "Does not apply" or chose not to answer.

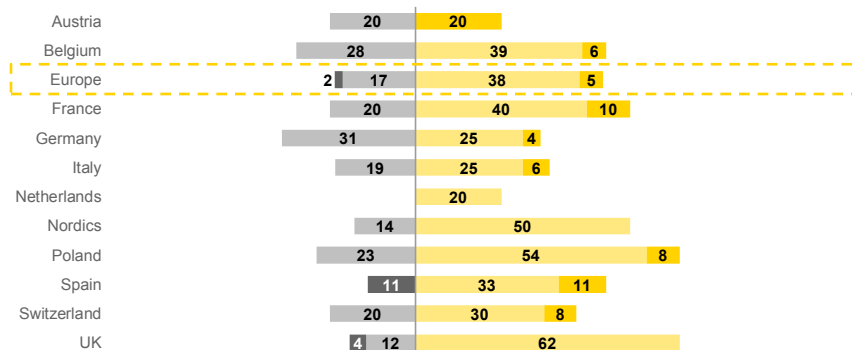
However, the outlook for asset management and deposit business is slightly less positive than before ...

How do you rate the outlook for your bank over the next 12 months in each of the following business lines?*

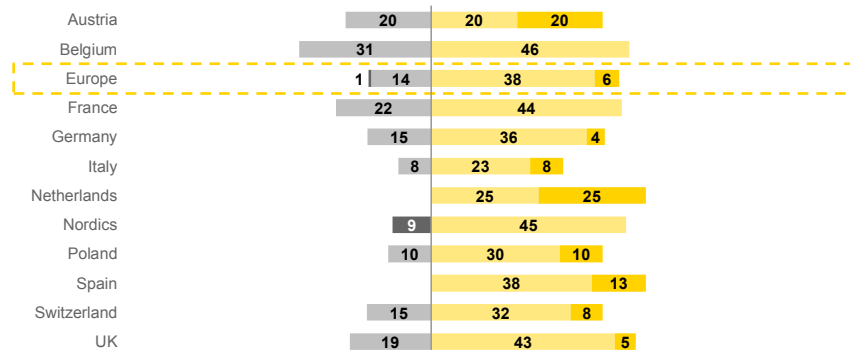
Asset management



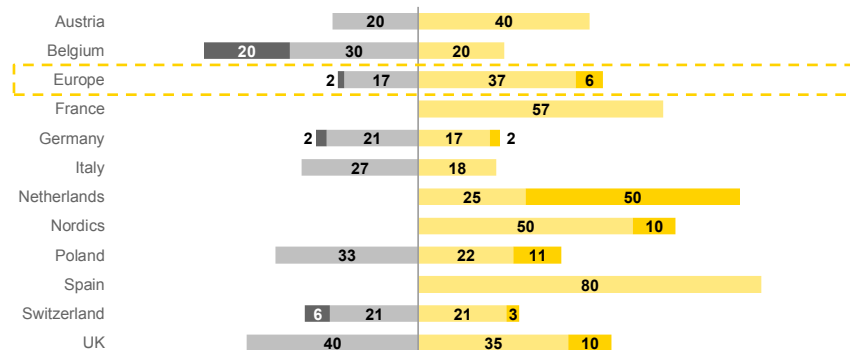
Deposit business



Securities services



Transaction advisory (e.g., M&A)



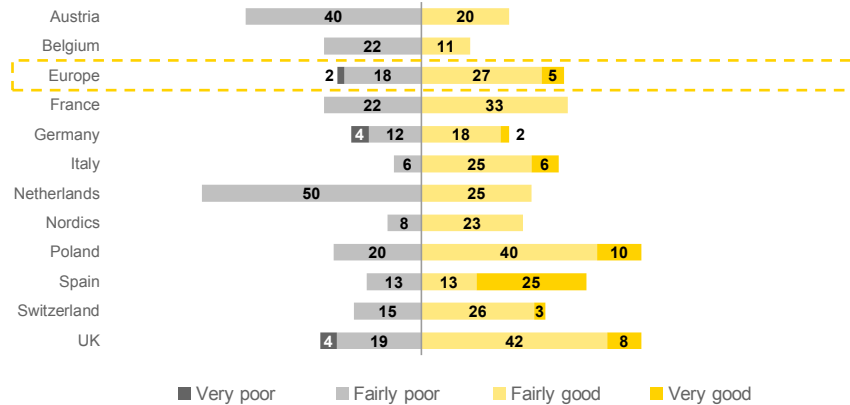
Very poor Fairly poor Fairly good Very good

* Numbers reflect the percentage of respondents who answered. Respondents answering "Neither good, nor poor" are not displayed. Base excludes respondents answering "Does not apply" or chose not to answer.

... while securities trading continues to struggle with a complex regulatory agenda

How do you rate the outlook for your bank over the next 12 months in each of the following business lines?*

Securities trading



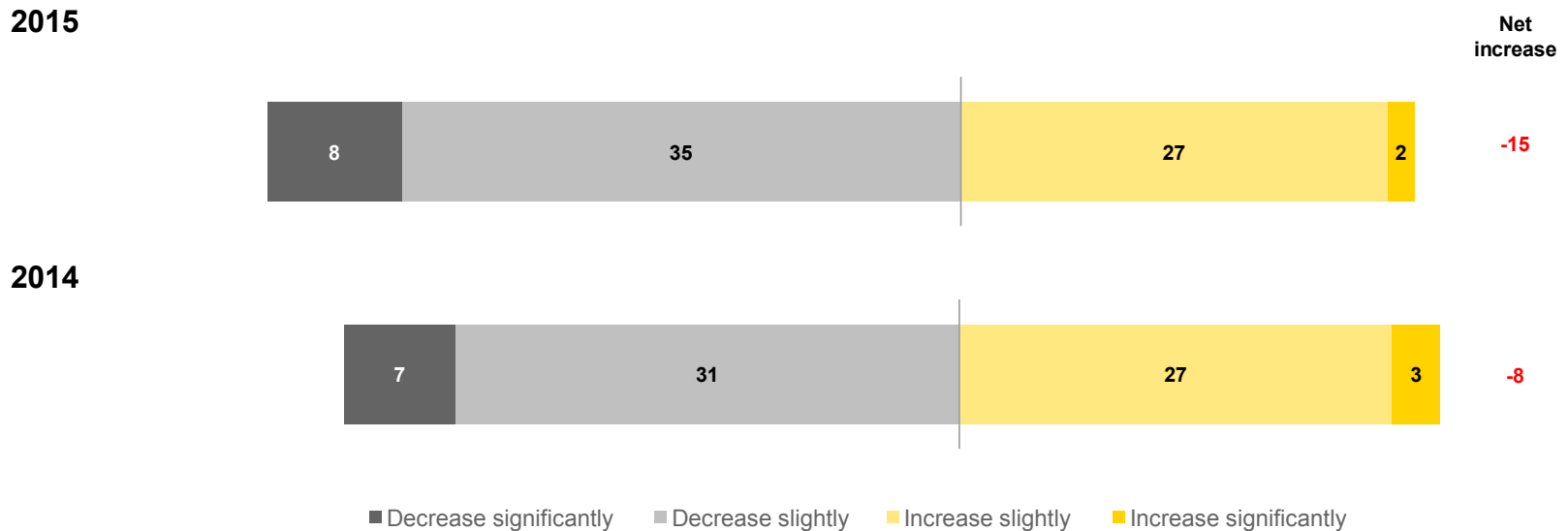
* Numbers reflect the percentage of respondents who answered. Respondents answering "Neither good, nor poor" are not displayed. Base excludes respondents answering "Does not apply" or chose not to answer.

Section 5

Headcount and compensation

A further decline is anticipated in overall headcount, with the pace of cuts increasing in most markets ...

Over the next 12 months, how do you expect the headcount of your bank to change?*

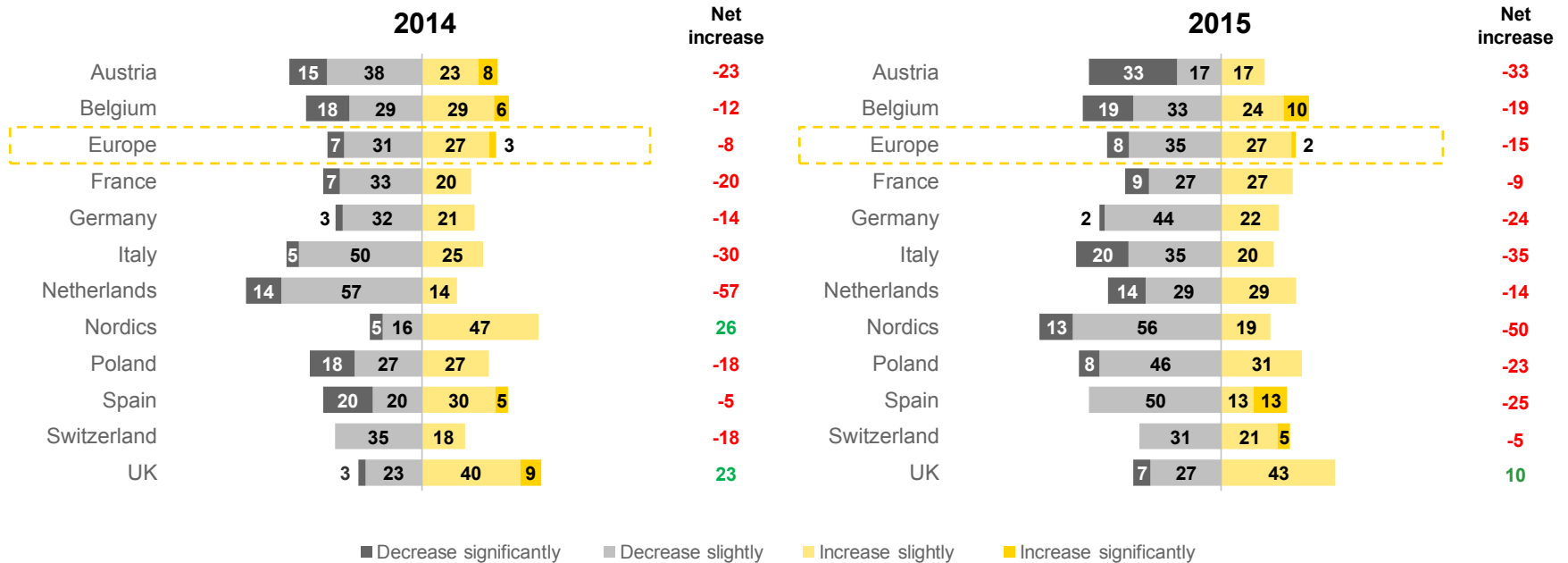


Comments: The pace of job cuts is expected to rise in 2015 to levels last seen in our *European Banking Barometer – 2H13*. Although, in the aftermath of the global financial crisis, European banks cut staff through a combination of restructuring efforts, asset sales and redundancies, aggregate headcount is just 4.4% down from 2007 levels. Staff costs remain around 54% of the sector's operating costs; with the industry anticipating further restructuring and requiring additional cost reduction to achieve profitability targets, further staff cuts remain inevitable. Forty-three percent of bankers expect headcount to fall, compared with 38% in our last survey. The greatest job losses are anticipated in the Nordics, Italy and Austria, while the UK is the only market where more respondents anticipate hiring than firing.

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

... except France, the Netherlands and Switzerland, while the UK is the only market where headcount is expected to rise

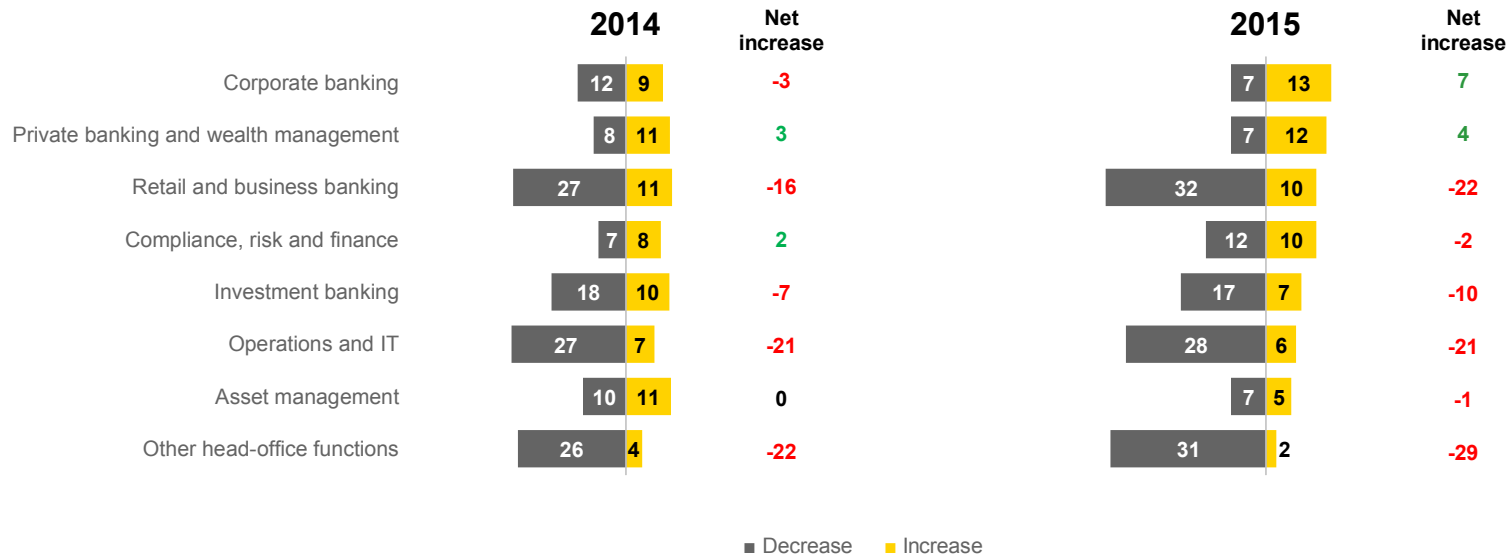
Over the next 12 months, how do you expect the headcount of your bank to change?*



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

Recruitment will be focused on growth sectors, such as corporate banking, private banking and wealth management

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

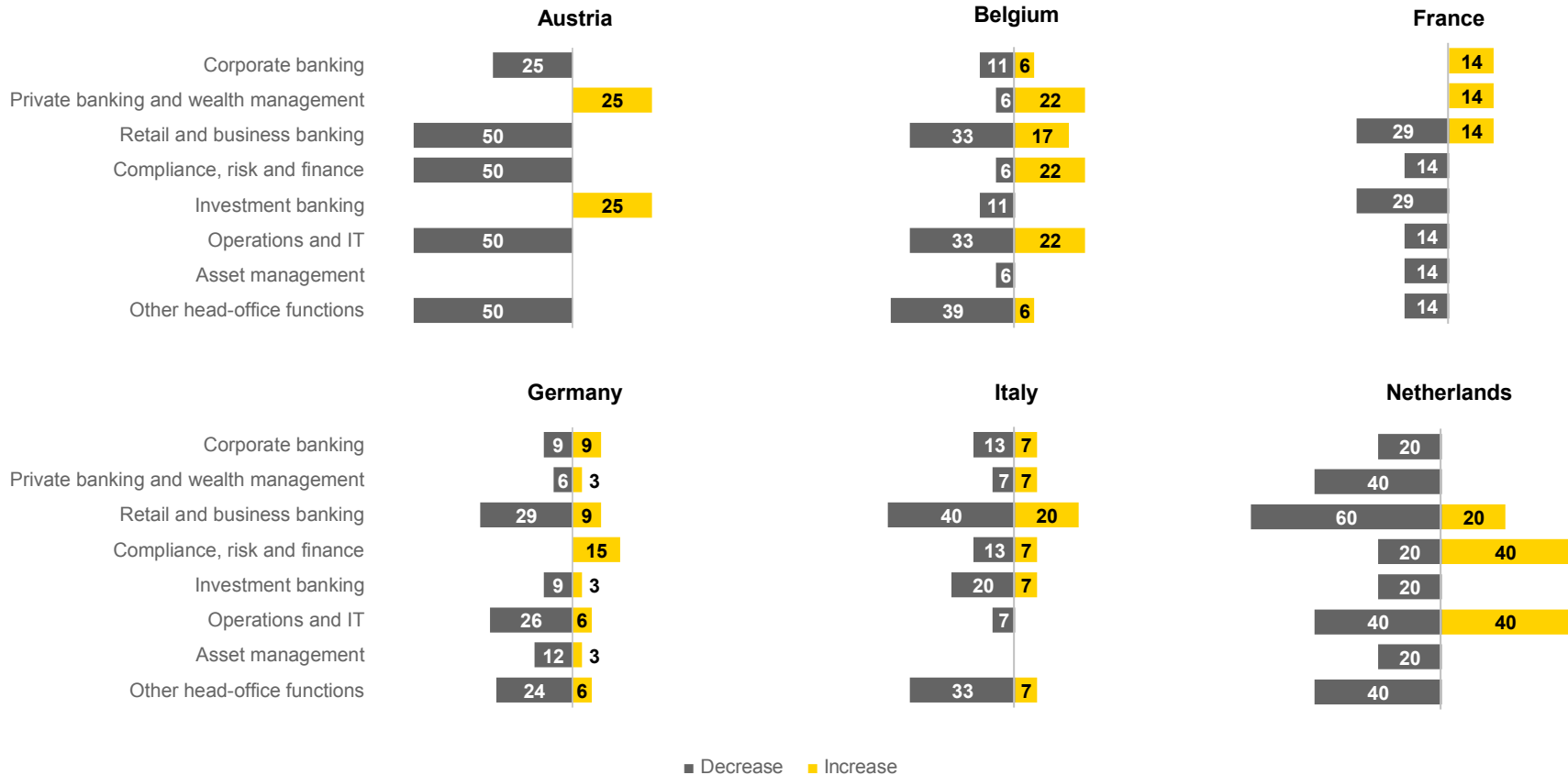


Comments: Unsurprisingly, headcount reductions continue to be focused on operations and IT, other head-office functions and retail banking, where banks have launched numerous process simplification activities. Surprisingly, given the volume of regulation banks are grappling with, slightly more respondents expect to reduce rather than recruit compliance staff. This may, however, be discounting the growth of risk and compliance contractors across organizations. Only corporate banking, and private banking and wealth management, which were identified by respondents as growth areas, are likely to see a net increase in staff.

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Significant cuts in retail banking, head-office functions, operations and IT jobs will continue unabated ...

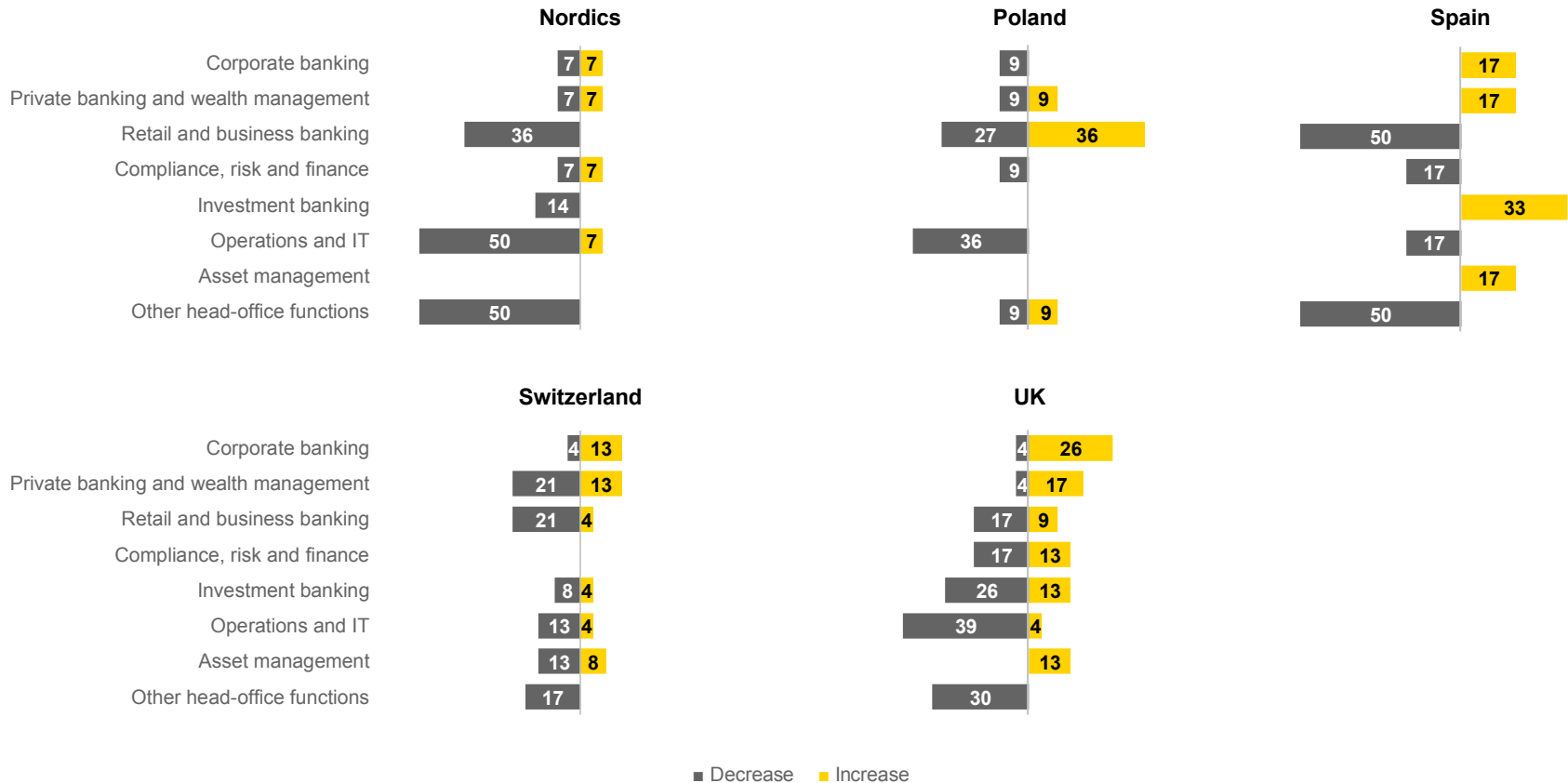
In which areas of the business do you expect headcount to increase or decrease?*



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... and modest reductions in compliance staff are also anticipated in many markets

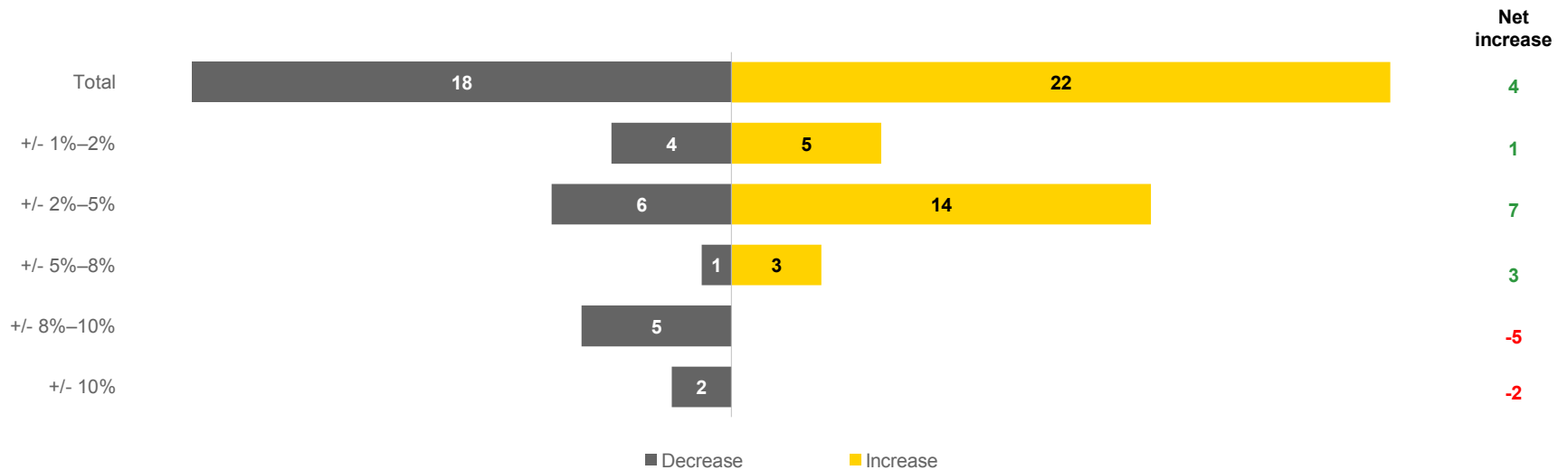
In which areas of the business do you expect headcount to increase or decrease?*



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

Pay expectations are now more realistic than in 2014, as regulatory and investor pressures bear fruit

Compared with the last 12 months (FY14), to what extent will aggregate (i.e., total fixed and performance-related) compensation change at your bank over the next 12 months (FY15)?

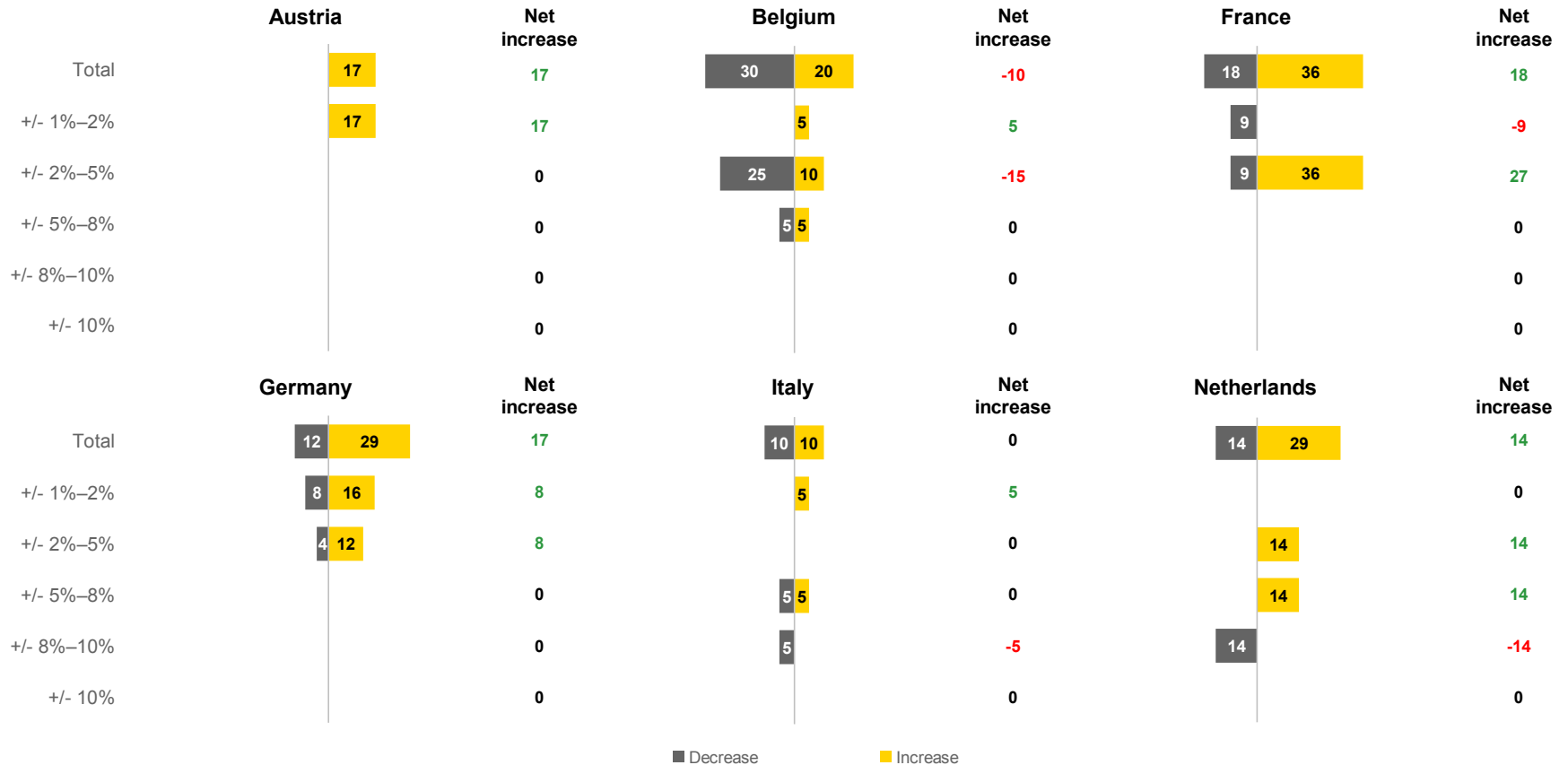


Comments: Remuneration has been an area of intensifying regulatory and investor focus since the global financial crisis, yet aggregate pay per head has risen by around 10% across European banks since 2007. But it appears bankers are now beginning to recognize that pay must be better aligned to both institutional and individual performance. Fewer bankers now expect pay to rise, and more expect it to fall, than in 2014. Notably, although 4% expected aggregate pay to increase by over 10% in 2014, none do this year. This change is most notable in the UK, where 10% now expect pay to fall by double digits. However, with just 16% of European respondents seeing the development of new remuneration systems as a key priority for the coming year, any cut in pay is likely to be a response to market pressure rather than an attempt to structurally transform incentives to change behaviors across the industry.

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An increase in aggregate compensation is expected in Austria, France, Germany, the Netherlands ...

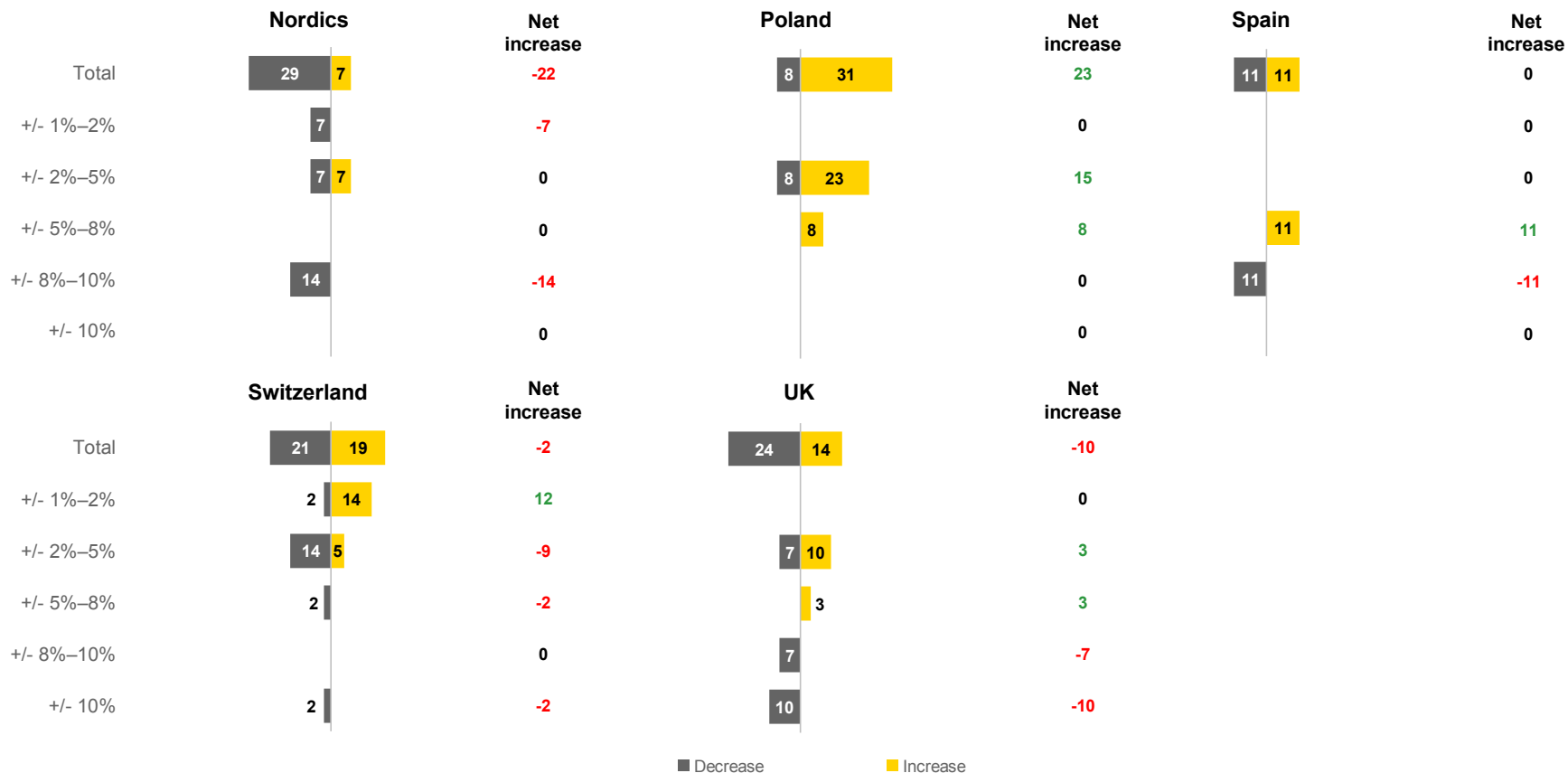
Compared with the last 12 months (FY14), to what extent will aggregate (i.e., total fixed and performance-related) compensation change at your bank over the next 12 months (FY15)?



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... and Poland, but many respondents in the Nordics and the UK anticipate a significant fall in remuneration

Compared with the last 12 months (FY14), to what extent will aggregate (i.e., total fixed and performance-related) compensation change at your bank over the next 12 months (FY15)?



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

Section 6

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Contacts

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