European Banking Barometer – 2016

Seeking stability in an uncertain world

EY

Building a better working world

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Section 1

Introduction

The *European Banking Barometer* provides an overview of the macroeconomic 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 seventh edition, the survey consists of 250 interviews with senior bankers across 12 markets: Austria, Belgium, France, Germany, Ireland*, 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 2015. 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 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 – 2015*.

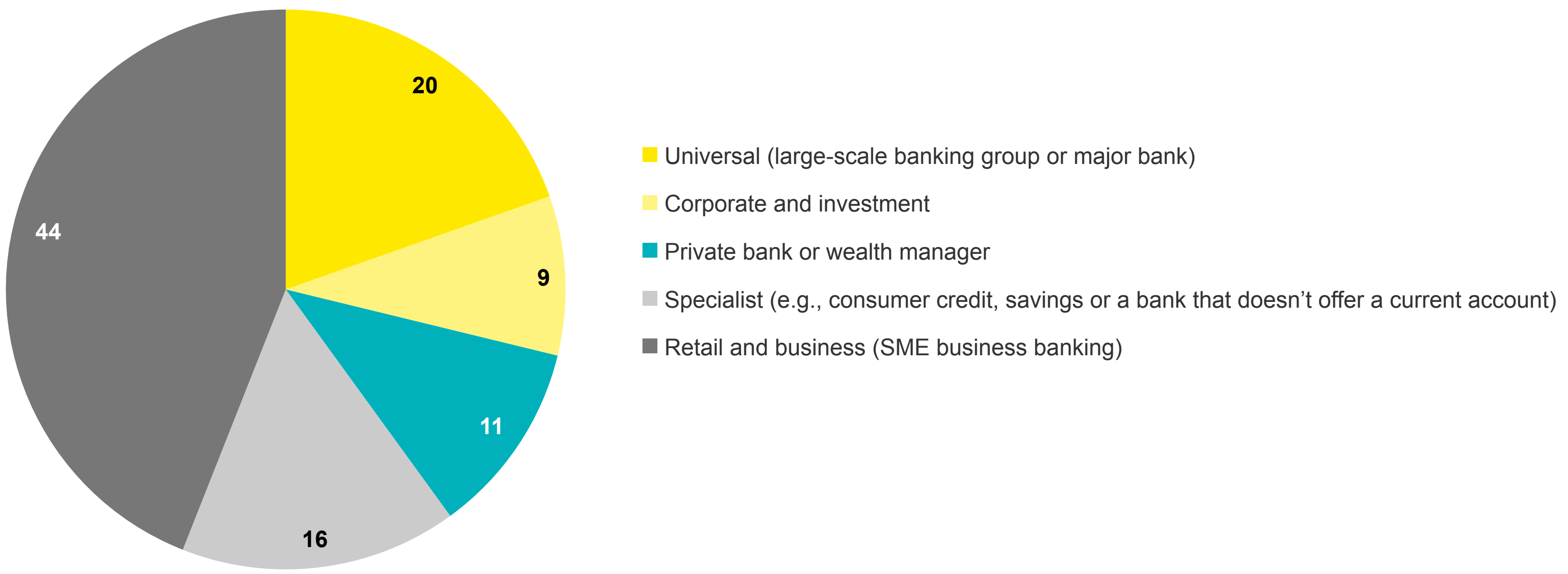
We would like to thank all the research participants for their contributions to the study.

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 58.

European Banking Barometer – 2016 is based on respondents' 12-month outlook.
* Ireland has been added to the study as a new market for 2016.
** France represents 41% and the Nordics represent 49% of their markets' banking assets.

Composite 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.

Composite of the survey sample by bank type

Bank type*

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	10	4			2	1	1	2
Belgium	11	4	1	1			1	4
France	14	5	1	1	3	1	1	2
Germany	72	3	3	8	12	12	32	2
Ireland**	21	4	2	3	9			3
Italy	33	7	3	4	2	7	2	8
Netherlands	9	4			5			
Nordics	14	5	1	1	4	1		2
Poland	12						2	10
Spain	9	5		1		1		2
Switzerland	11	2		4		2	3	
UK	34	6	12	5	3		2	6
Europe* **	**250**	**49**	**23**	**28**	**40**	**25**	**44**	**41**

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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.

** Ireland has been added as a new market to the study for 2016.

*** 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 2015 and *SNL Financial*. All market-level figures in this report reflect unweighted data.

European overview

View the European overview video at
ey.com/ebb

European banks reposition for a long-term environment of regulatory-driven change and low growth.

- The broad-based optimism of European bankers in our recent surveys has evaporated. Although many expect the outlook for individual business lines to improve, limited improvement in financial performance is anticipated. This overall picture masks a sharp divide across European Markets.
- Most bankers expect their agenda for the next 12 months to be dominated by risk management and regulatory compliance.
- With economic conditions a major obstacle to revenue growth, many respondents also anticipate a renewed focus on cost reduction, including further job cuts.
- Where institutions do seek growth, it is likely to be through partnerships or joint ventures rather than acquisitions.

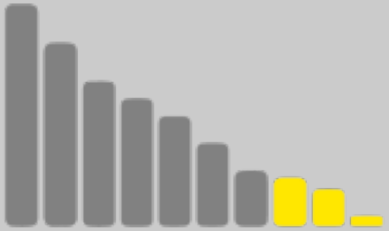
Overall optimism slips to its lowest level since 2012 …

- Bank executives are at their least optimistic about their financial performance since 2012, when the Eurozone debt crisis was at its height.
- Expectations for revenue growth, cost reduction and return on equity (ROE) are also down from last year.
- Unless banks exceed the 1.62% revenue growth and 0.90% reduction in costs they anticipate, we estimate they will only see improvement in average ROE of 0.47% – less than half of the average 1.06% anticipated by the respondents.
- However, expectations of performance are sharply divided across different markets. For example, in Ireland, Spain and the UK, bankers expect ROE to increase by about 2.5%, while the expectation in Poland is for a 3% decline.

Financial performance

Financial performance expectations are less optimistic: only 52% of respondents believe that the financial performance of their own bank will improve, compared with 56% in 2015. The net positive score – the gap between those expecting their financial performance to strengthen and those expecting it to weaken – has fallen to 29%, the lowest since 13% was recorded in 2012.

29%



View the European overview video at
ey.com/ebb

… but there is more optimism about the outlook for individual business lines …

- While bankers have been optimistic for some time about the outlook for areas such as private banking and wealth management, there's a marked pickup this year in their expectations for investment banking and transaction advisory services. This points to a bright outlook for M&A, reflecting the impact on some industries from factors such as the recent market turbulence and plunging oil prices.

… and a broad loosening of lending policies in both the corporate and consumer sectors.

- While this may again appear surprising, given the relatively high level of market uncertainty, it reflects the fact that banks across Europe are generally in a better capital position than they have been for some time. It seems that, with stronger common equity Tier 1 (CET1) capital ratios – up by an average of 70bps from last year – and impact of the European Central Bank's quantitative easing program, banks are feeling more freedom to lend.

Risk and regulation continue to dominate the agenda …

- Risk management remains the No.1 agenda item for banks, with other risk and regulation issues, such as capital ratios and compliance with capital market regulations, also still ranking highly.
- Cybersecurity and combating finance crime will remain a key priority for banks in Belgium, France, Ireland, Netherlands, Poland and UK.

… together with efficiency.

- Bankers anticipate an increased emphasis on cost reduction – and not just the strategic kind, but short-term cost cutting as well.
- Streamlining processes is now a key priority for 61% of banks, up from 57% last year. Perhaps more significant is the increased emphasis on minimizing all non-essential expenditure/cutting costs, a priority for more than half of respondents, compared with just 37% in 2015.

Risk at top of agenda

Risk management remains top priority: over the years since we launched the *European Banking Barometer*, managing risk and regulation has consistently dominated banks' list of priorities – underlining the extent to which it has simply become part of business-as-usual. As with last year, risk management ranks as the No.1 agenda item this time, cited as a priority by 70% of respondents.

70%

View the European overview video at ey.com/ebb

Expectations for job cuts and pay highlight the renewed emphasis on cost reduction …

- Our findings suggest that headcount reduction is likely to be at its highest rate since 2012, with 54% of respondents predicting it will fall, compared with 43% last year.
- However, in contrast to 2015, most markets anticipate an increase in headcount in compliance, risk and finance, reflecting the prioritization of risk management and regulatory compliance across the industry.
- Bankers also anticipate ongoing moderation of pay. Although 22% of bankers still anticipate a rise in aggregate pay in 2016 – the same number as in 2015 – just 12% anticipate a rise greater than 2%, compared with 17% last year. More significantly, 60% of bankers expect aggregate pay to remain flat in 2016.

… as banks turn to innovation and partnerships to drive growth.

- Our findings also underline the rapidly growing focus on investing in customer-facing technology – which will be central to winning market share and share of wallet – with 53% of banks citing this as a priority, up from 43% last year.
- With many banks preoccupied by regulatory compliance and challenged by budget cuts, partnerships with FinTech firms may play a key role in developing new technologies to support their growth agenda as partnerships with industry disruptors was cited as a key priority by 23% of respondents.

Finally, a new agenda item for banks might be preparing for the impact of the UK leaving the EU.

- With the UK's referendum on EU membership scheduled for June 2016, 70% of all European banks anticipate some impact from a UK departure. More importantly, 27% of banks in EU countries outside the UK say the impact would be "considerable" or "significant."

Headcount reduction

Headcount is expected to fall: fifty-four percent of bankers expect headcount to fall in 2016, compared with 43% in our last survey, with reductions, once again, predicted in operations and IT, other head-office functions and retail banking. Ireland, the Nordics and Switzerland are the only markets where more respondents expect overall headcount to increase rather than decrease.

54%

Overall optimism of senior banking executives slips to its lowest since 2012 …

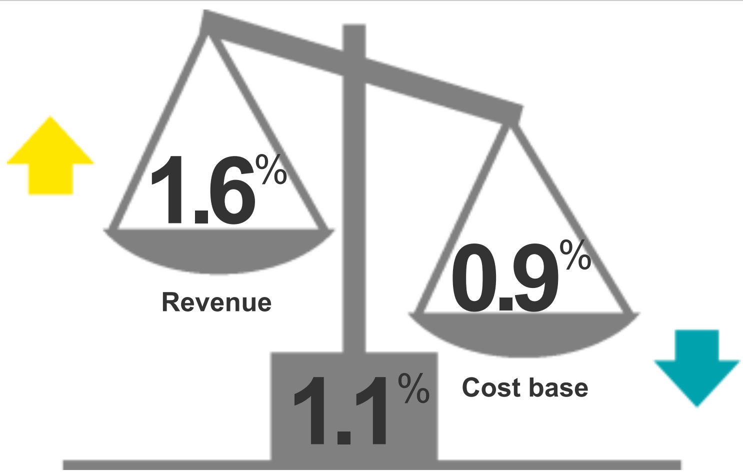
How do you expect your bank's overall financial performance to change over the next 12 months?

*** Net increase**

2012	2013	2014	2015	2016
13%	48%	46%	40%	29%

Despite falling ROE expectations, bankers continue to have ambitious predictions:

Bankers' expectations for 2016



EY's expectations

Average ROE

0.5%

Half of what the banks anticipate

EY analysis predicts banks will only achieve 0.5% ROE uplift based on bankers' revenue and cost predictions.

* Difference between the respondents who answered it would strengthen and those who answered it would weaken.

… but the prognosis is brighter for specific business lines.

How do you rate the outlook for your bank over the next 12 months?

*** Not good**

57%

Private banking / wealth management

52%

Corporate banking

46%

Retail banking

42%

Transaction advisory, e.g., M&A

* Difference between the respondents who answered it would be poor and those who answered it would be good.

Risk and regulation – together with cost cutting – dominate the agenda.

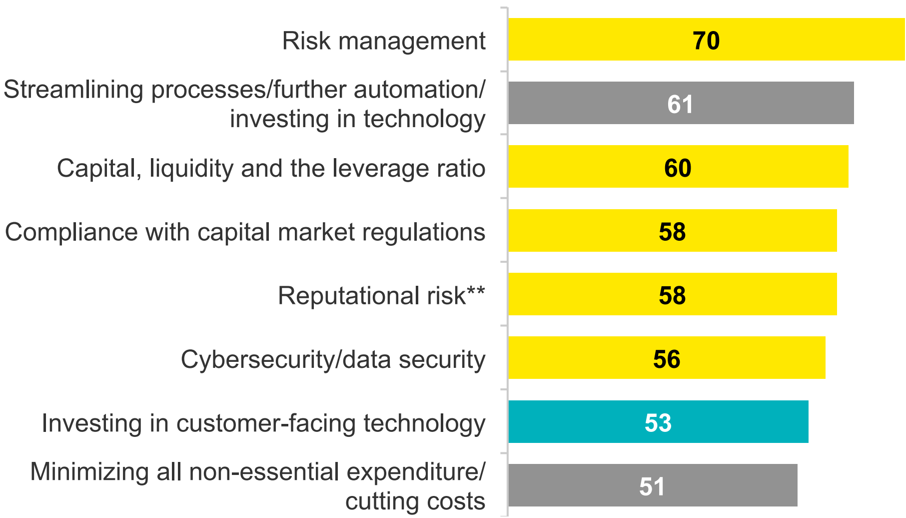
European bankers' top three priorities for 2016:

1st Risk and regulation

2nd Cost cutting and efficiency

3rd Innovation and growth

Banks' top agenda items*



Strong focus on cost cutting:

43%

In 2015 compared with

54%

in 2016 predict headcount to fall, which is at its highest rate since 2012.

* Percentage of respondents ranking agenda items as very important
** Reputational risk includes tax transparency, remuneration and cultural issues..

FinTech collaboration will enable banks to innovate and grow.

23%

Expect to collaborate with FinTech companies …

… which is critical to the …

53%

… banks looking to invest in customer-facing technology …

… and respond to the growing emphasis on enhancing cyber security.

47%

In 2014

48%

In 2015

56%

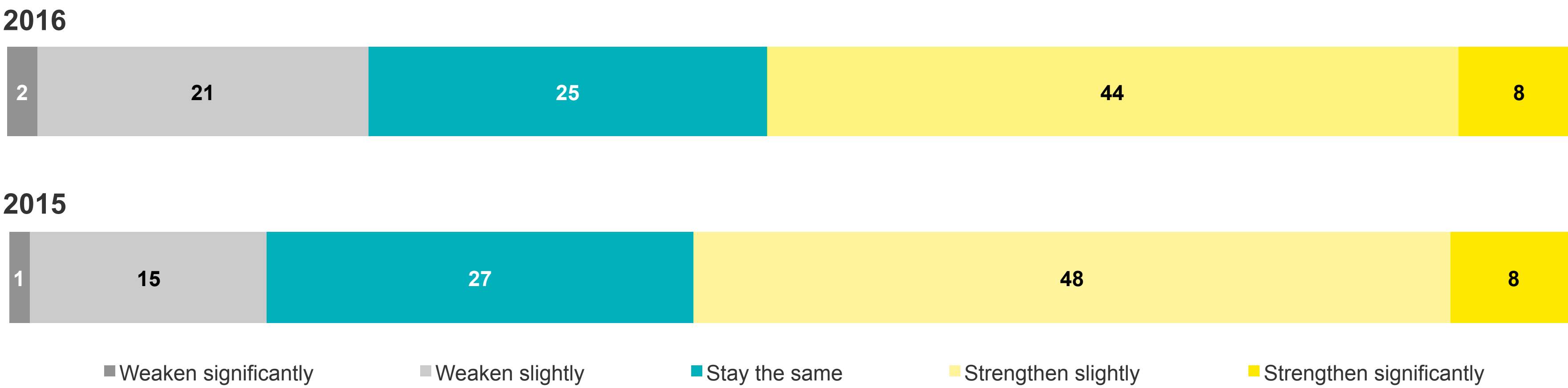
In 2016

Section 2

Business outlook and focus areas

Bankers are less optimistic about their institution's financial performance than at any time in the last four years …

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

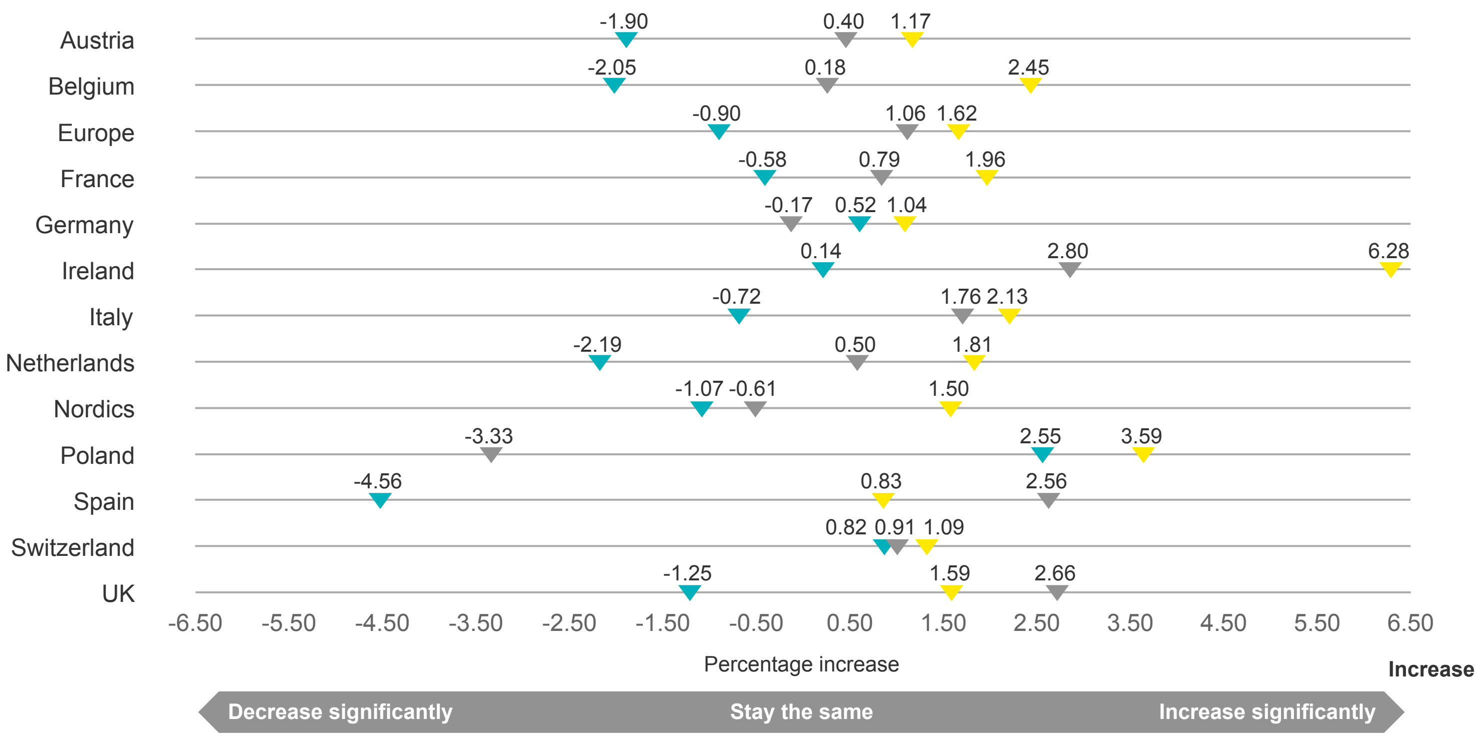


Comments: Only in our 2012 survey, in the midst of the Eurozone debt crisis, have bankers been less optimistic about their institution's financial performance. Across Europe, banks anticipate an improvement in revenue of just 1.6%, which is well below last year's rather modest 3.5% prediction. Similarly, bankers expect costs to fall by an average of 0.9%, well below the 1.6% they anticipated last year. Although respondents hope that these improvements will deliver an average increase of 1.1% in ROE (also down from 1.6% last year), EY analysis suggests that the anticipated revenue growth and cost reduction will boost ROE by a mere 0.5%. However, despite a general decline in confidence, expectations are sharply divided across Europe. The outlook is bleakest in Poland, where bankers anticipate a 3.3% decline in ROE as they grapple with regulatory change and higher operating costs. Banks in Germany and the Nordics also anticipate a slight decline in ROE. By contrast, bankers in Ireland, Spain and the UK expect ROE increases in excess of 2.5%.

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

… with only Irish, Spanish and UK banks expecting ROE growth of over 2.5%.

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



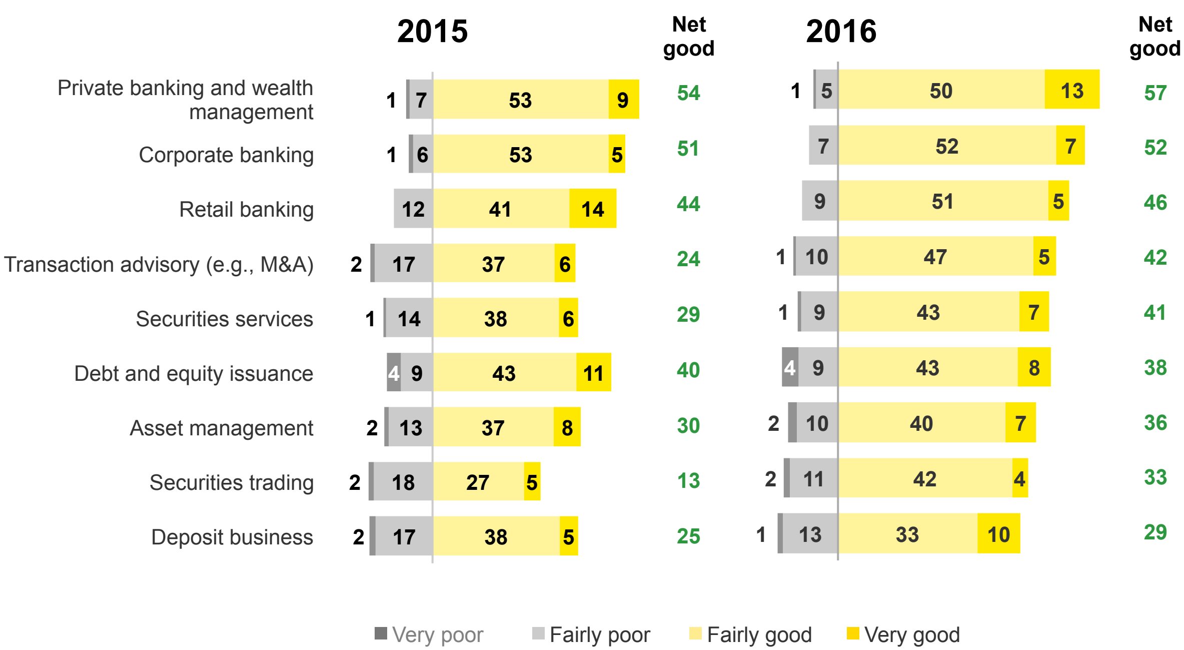
Average percentage change

	Revenue	Cost base	ROE
Austria	**1.17**	**-1.90**	**0.40**
Belgium	**2.45**	**-2.05**	**0.18**
Europe	**1.62**	**-0.90**	**1.06**
France	**1.96**	**-0.58**	**0.79**
Germany	**1.04**	**0.52**	**-0.17**
Ireland	**6.28**	**0.14**	**2.80**
Italy	**2.13**	**-0.72**	**1.76**
Netherlands	**1.81**	**-2.19**	**0.50**
Nordics	**1.50**	**-1.07**	**-0.61**
Poland	**3.59**	**2.55**	**-3.33**
Spain	**0.83**	**-4.56**	**2.56**
Switzerland	**1.09**	**0.82**	**0.91**
UK	**1.59**	**-1.25**	**2.66**

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

Nevertheless, bankers remain upbeat about the outlook for individual lines of business …

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



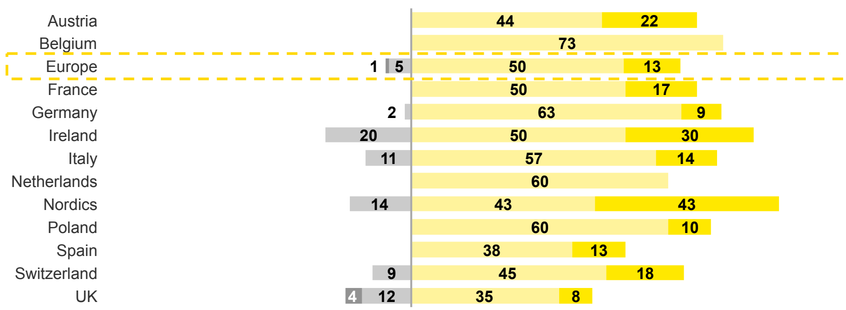
Comments: While bankers continue to believe the outlook is most positive for "capital-light" private banking and wealth management, as well as corporate banking, the most dramatic improvement in outlook since last year is for capital market-related businesses. Notably, more than half of respondents believe the outlook for transaction advisory services is good. This reflects the results of EY's latest *Global Capital Confidence Barometer*,[1] which predicts increased M&A spending in several sectors, including construction, gaming, pharmaceuticals, capital goods and telecommunications. Weak oil prices and low company valuations may also create opportunities for transactions in the oil and gas industry. Only the outlook for debt and equity issuance is slightly less positive than in 2015, reflecting uncertainty about the prospects for economic growth in European and other major global markets.

Base excludes respondents answering "Does not apply" or who chose not to answer.
* Numbers reflect the percentage of respondents who answered. Respondents answering "Neither good nor poor" are not displayed.
[1] EY's *Capital Confidence Barometer* can be downloaded at ey.com/ccb.

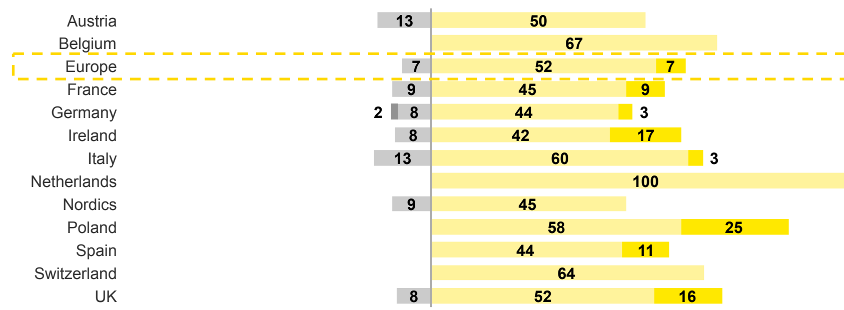
… with a significant improvement in the outlook for transaction advisory and …

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

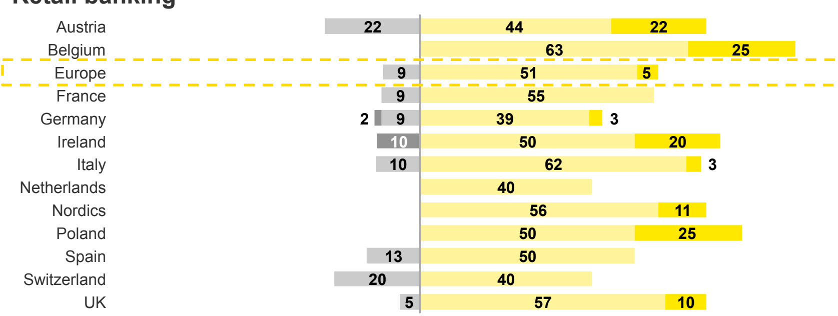
Private banking and wealth management



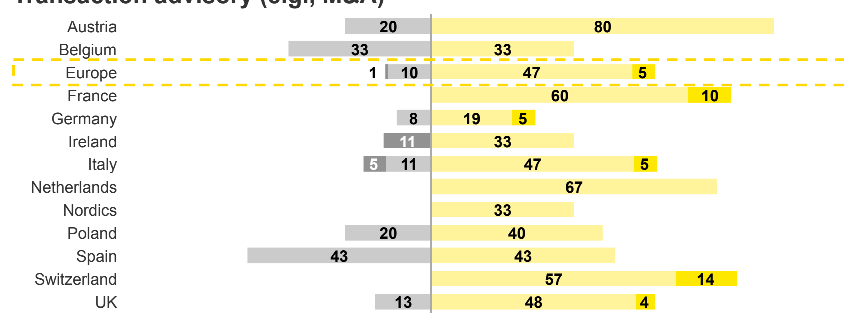
Corporate banking



Retail banking



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

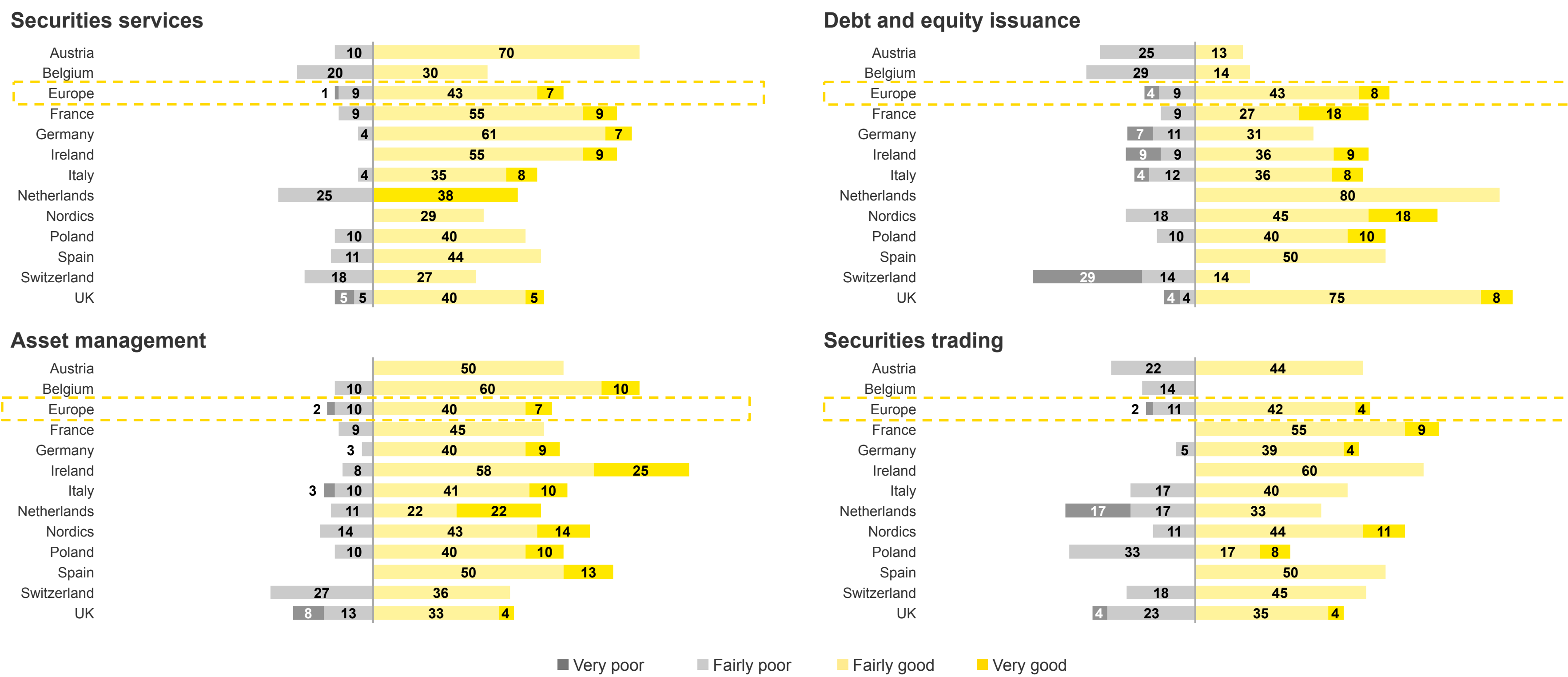


Very poor   Fairly poor   Fairly good   Very good

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

… securities services and securities trading. However, the outlook for debt and equity issuance is slightly less positive than last year …

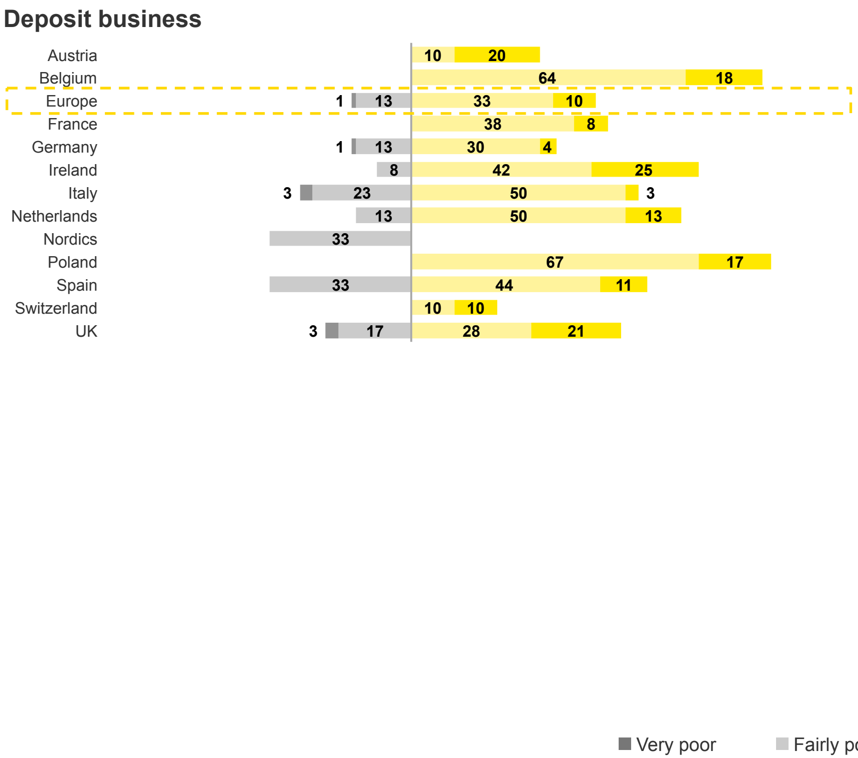
How do you rate the outlook for your bank over the next 12 months in each of the following business lines?*



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

… reflecting broad economic uncertainty and concerns about valuations in a volatile market.

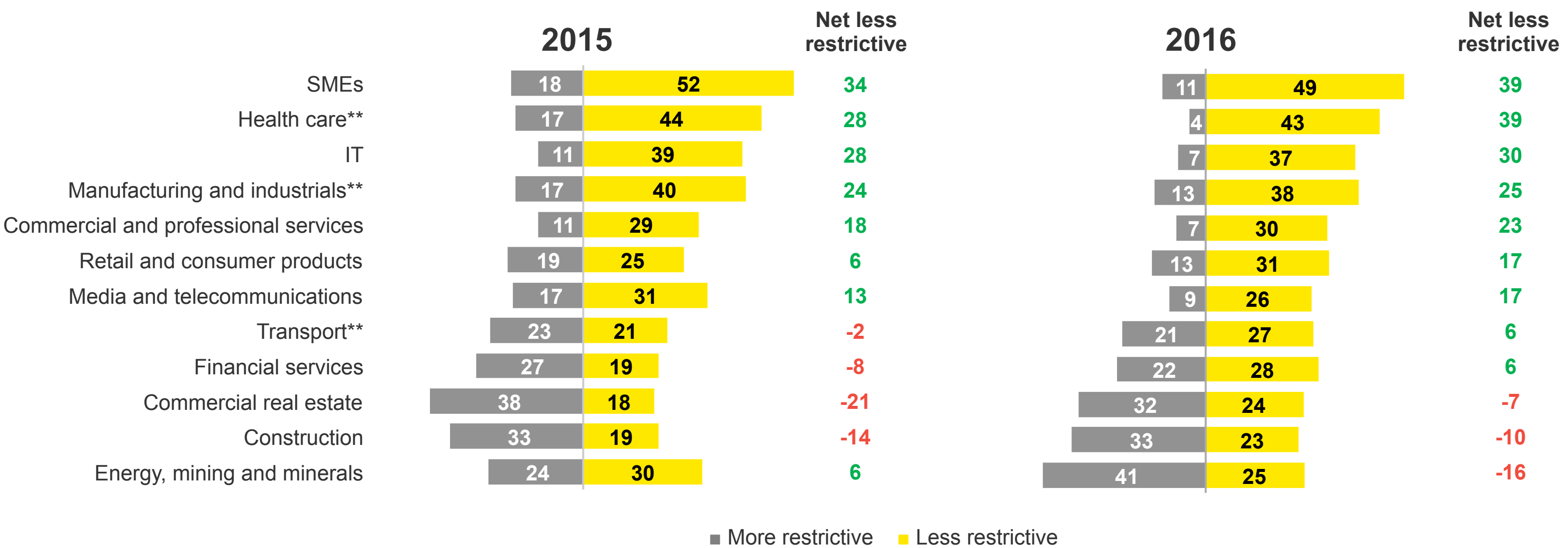
How do you rate the outlook for your bank over the next 12 months in each of the following business lines?*



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

Banks expect policies for lending to most sectors to be less restrictive, aided by stronger capital positions and ongoing monetary easing …

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?*



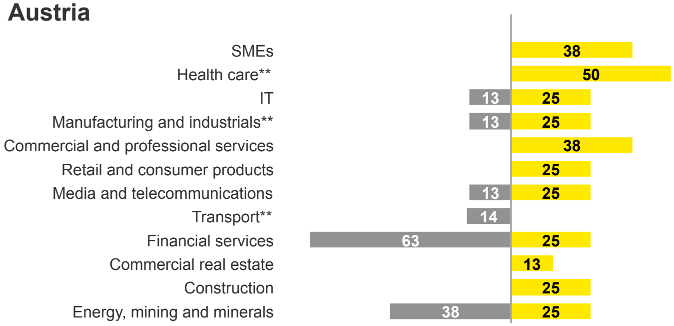
Comments: Bankers continue to expect corporate lending policies to become less restrictive across most sectors. This expectation supports the European Banking Authority's (EBA) recent assertion that there is no strong statistical evidence of significant negative impacts of the net stable funding ratio (NSFR) on bank lending.[2] With stronger capital positions – average Tier 1 (CET 1) common equity for European banks has increased by 70bps over the last 12 months – competitive pressure and narrower margins on loans may spur further loosening of lending criteria, as some banks seek to compensate for tighter margins by growing their lending book. However, as banks continue to de-risk their balance sheets, lending policies for the commercial real estate and construction sectors will continue to tighten. In addition, lending criteria for the energy sector is expected to become more restrictive, as firms in that sector continue to suffer from the continued depression of oil prices.

Base excludes respondents who answered "Don't know."
* Numbers reflect the percentage of respondents who answered. Respondents answering "Remain unchanged" are not displayed.
** Manufacturing and industrials includes chemicals, engineering, infrastructure and materials; Health care includes pharmaceuticals, biotechnology and life sciences; transport includes automotive and shipping.
[2] https://www.eba.europa.eu/-/eba-recommends-introducing-the-nsfr-in-the-eu.

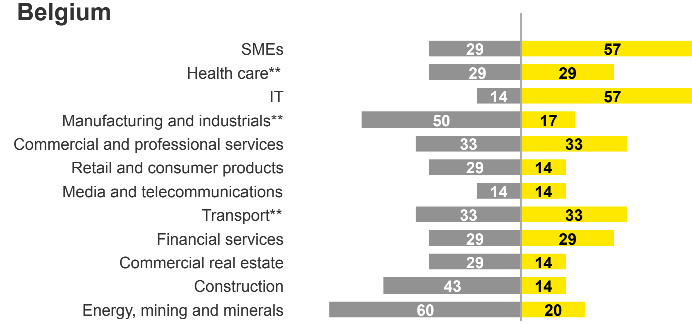
However, lending policies to the energy sector are set to be more restrictive in all markets except France and Italy …

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?*

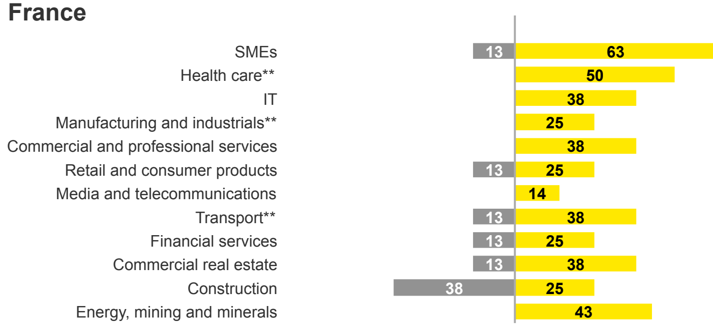
Austria



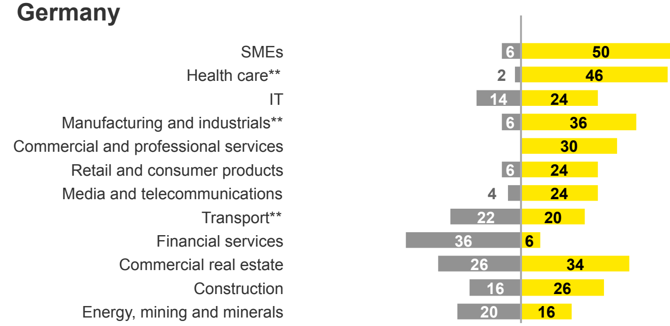
Belgium



France



Germany

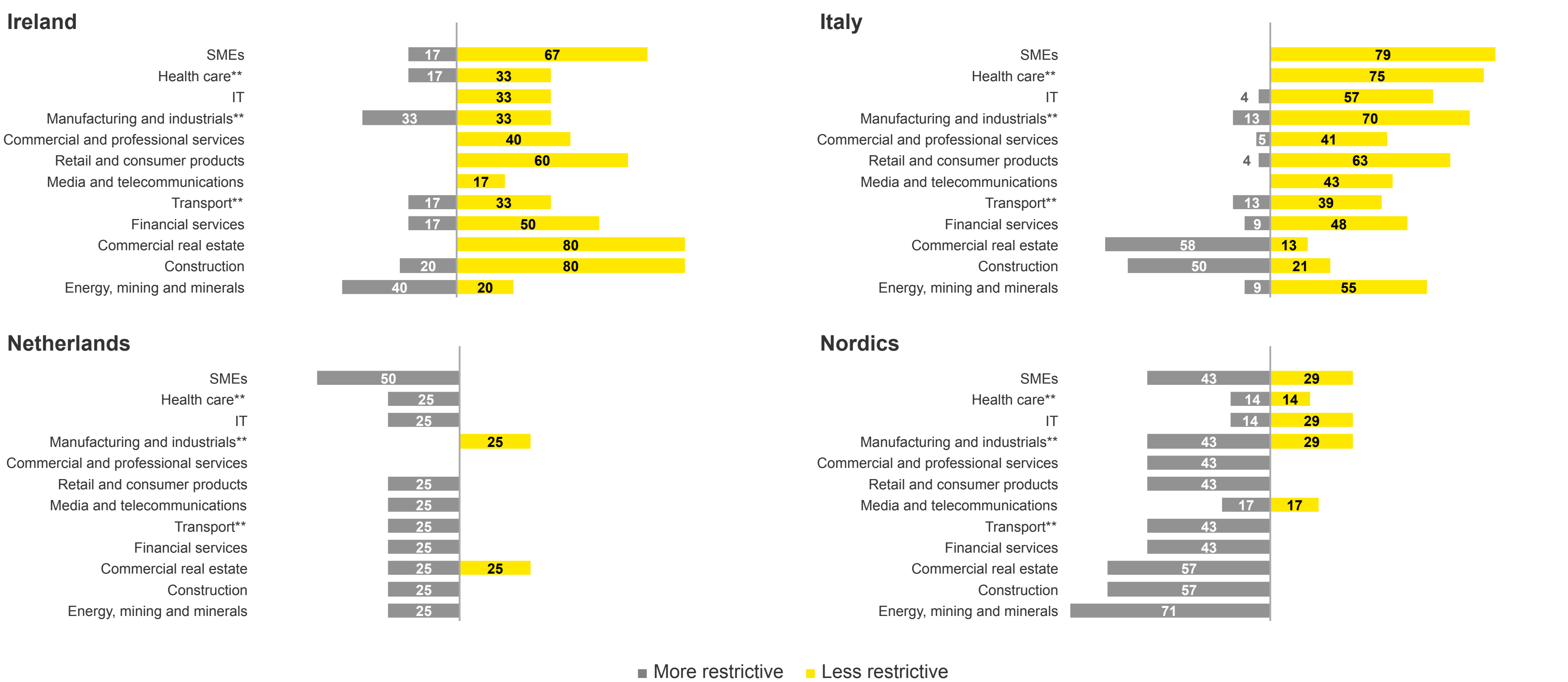


■ More restrictive ■ Less restrictive

Base excludes respondents who answered "Don't know."
* Numbers reflect the percentage of respondents who answered. Respondents answering "Remain unchanged" are not displayed.
** Manufacturing and industrials includes chemicals, engineering, infrastructure and materials; Health care includes pharmaceuticals, biotechnology and life sciences; transport includes automotive and shipping.

… while lending to commercial real estate and construction are expected to tighten in most markets …

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?*

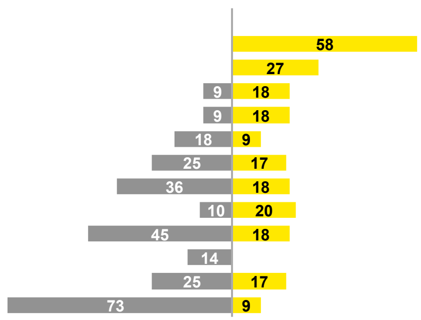


Base excludes respondents who answered "Don't know."
* Numbers reflect the percentage of respondents who answered. Respondents answering "Remain unchanged" are not displayed.
** Manufacturing and industrials includes chemicals, engineering, infrastructure and materials; Health care includes pharmaceuticals, biotechnology and life sciences; transport includes automotive and shipping.

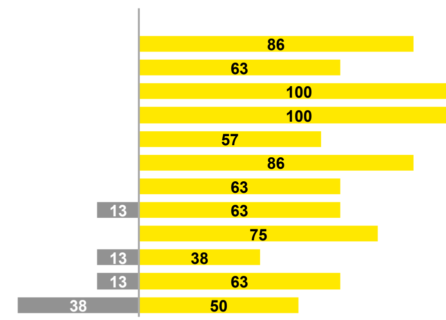
… except Austria, Germany, Ireland and Spain.

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?*

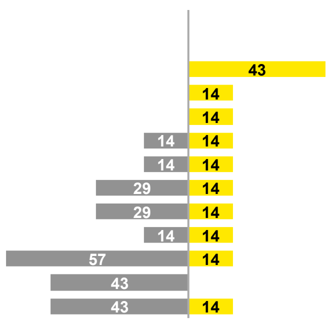
Poland



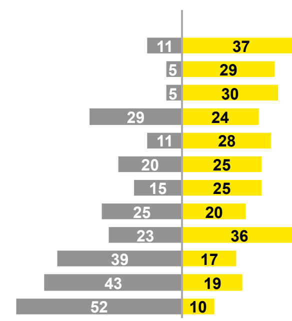
Spain



Switzerland



UK

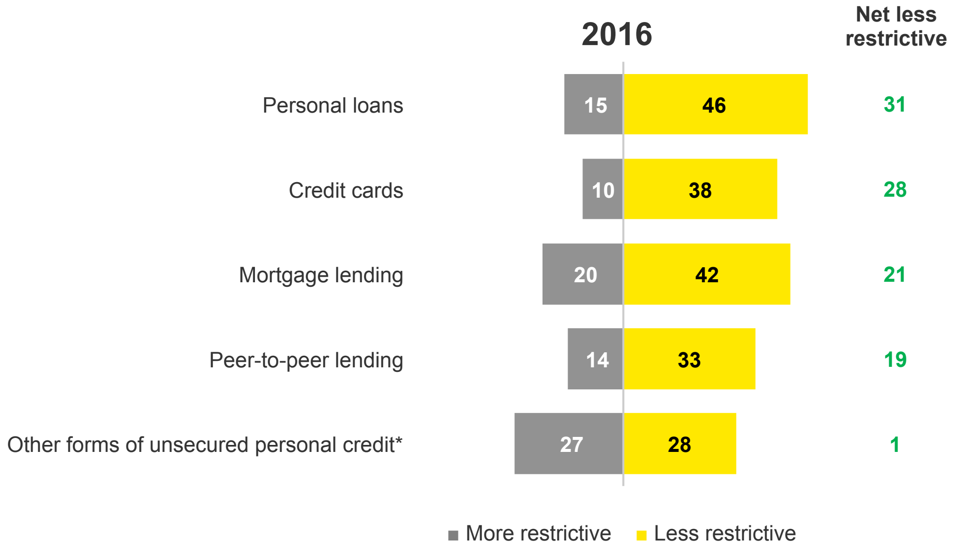


■ More restrictive ■ Less restrictive

Base excludes respondents who answered “Don’t know.”
* Numbers reflect the percentage of respondents who answered. Respondents answering “Remain unchanged” are not displayed.
** Manufacturing and industrials includes chemicals, engineering, infrastructure and materials; Health care includes pharmaceuticals, biotechnology and life sciences; transport includes automotive and shipping.

Many bankers also anticipate retail and consumer lending to be less restrictive over the next 12 months …

How do you expect the retail and consumer lending policies of banks in your market to change in each of the following areas over the next 12 months?**

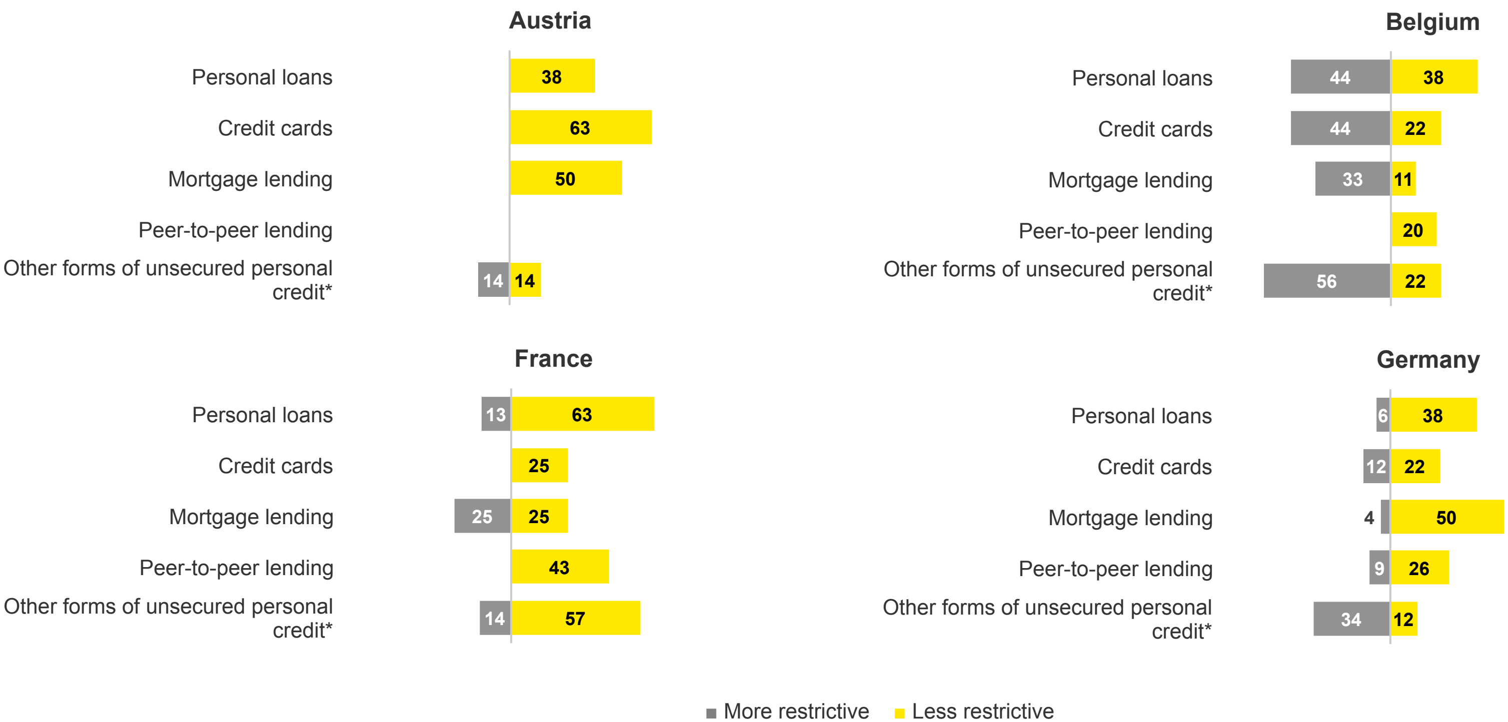


Comments: Stronger capital positions, and an expectation that central bank rates will remain low, will also enable banks to loosen their criteria for retail and consumer lending. Expectations that mortgage lending policies will be eased, despite the formal introduction of the EU Mortgage Credit Directive in March 2016, reflect a very positive outlook for the European residential and property markets. Lending policies are also expected to be much less restrictive in Ireland and Spain, where recovering economies are supported by low rates and an improving labor market.

Base excludes respondents who answered "Don't know."
Numbers reflect the percentage of respondents who answered. Respondents answering "Remain unchanged" are not displayed.
* Other forms of unsecured personal credit includes overdrafts and point of sale.
** This question was added in 2016, so comparison data for 2015 is unavailable.

… although lending policies are expected to be more restrictive in Belgium …

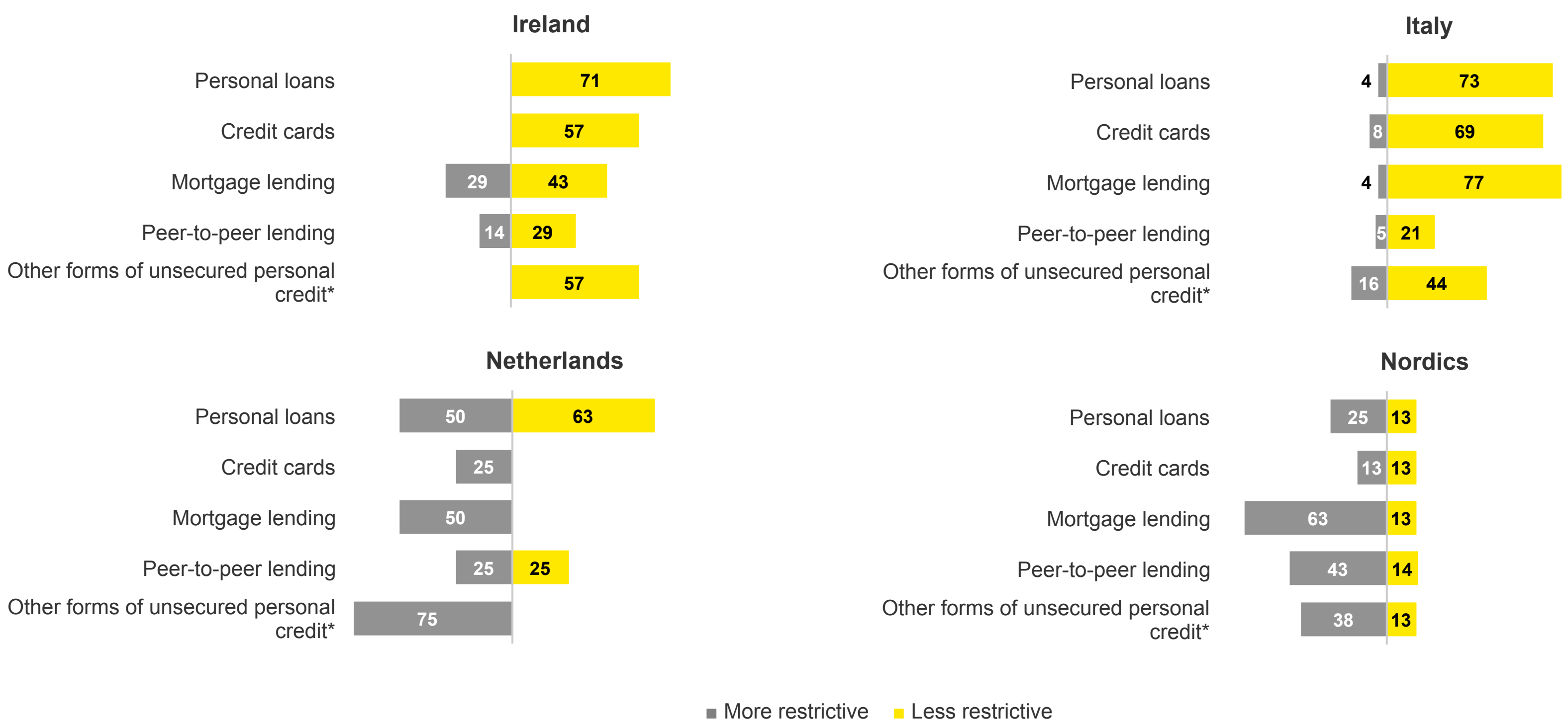
How do you expect the retail and consumer lending policies of banks in your market to change in each of the following areas over the next 12 months?**



Base excludes respondents who answered "Don't know."
Numbers reflect the percentage of respondents who answered. Respondents answering "Remain unchanged" are not displayed.
* Other forms of unsecured personal credit includes overdrafts and point of sale.
** This question was added in 2016, so comparison data for 2015 is unavailable.

… the Netherlands, the Nordics, Poland and Switzerland.

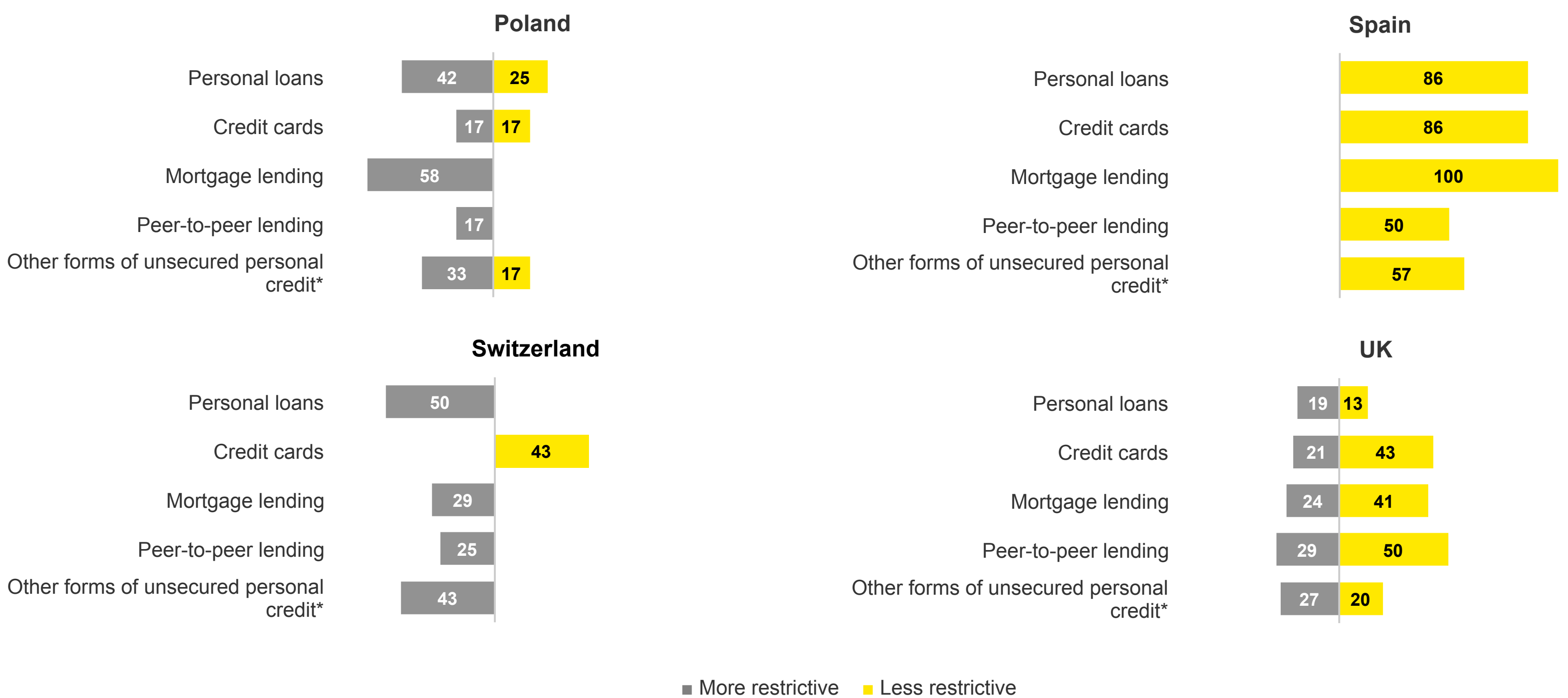
How do you expect the retail and consumer lending policies of banks in your market to change in each of the following areas over the next 12 months?**



Base excludes respondents who answered "Don't know."
Numbers reflect the percentage of respondents who answered. Respondents answering "Remain unchanged" are not displayed.
* Other forms of unsecured personal credit includes overdrafts and point of sale.
** This question was added in 2016, so comparison data for 2015 is unavailable.

A significant loosening of consumer lending policies is anticipated in Spain.

How do you expect the retail and consumer lending policies of banks in your market to change in each of the following areas over the next 12 months?**



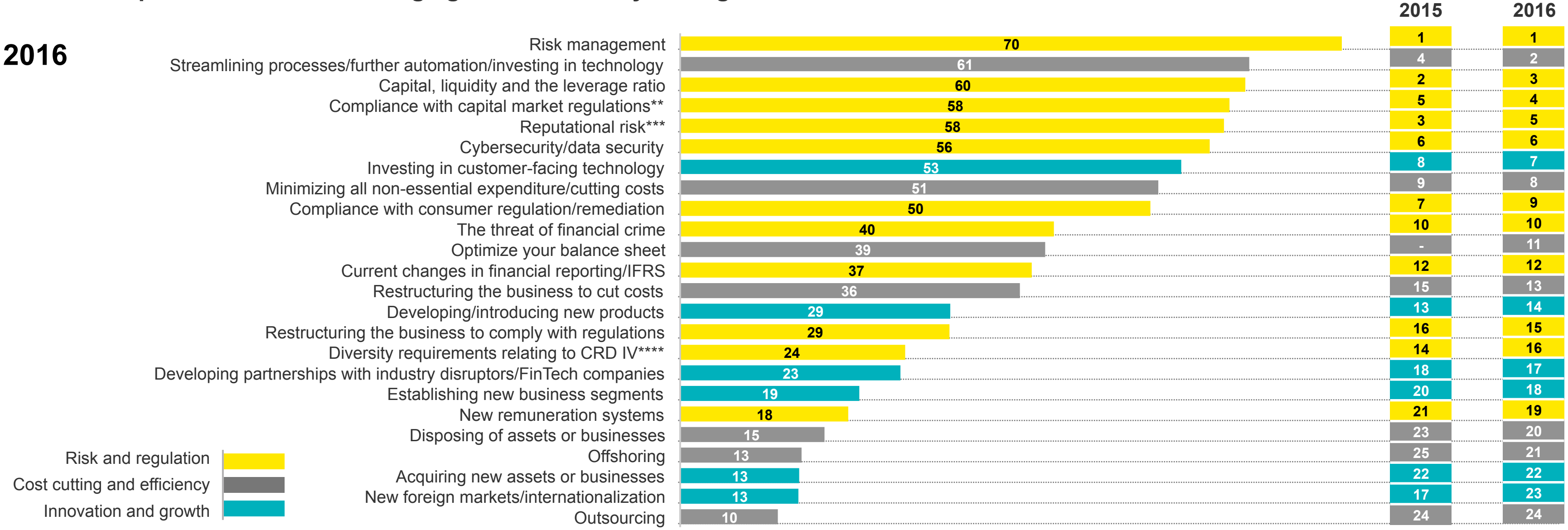
Base excludes respondents who answered “Don’t know.”
Numbers reflect the percentage of respondents who answered. Respondents answering “Remain unchanged” are not displayed.
* Other forms of unsecured personal credit includes overdrafts and point of sale.
** This question was added in 2016, so comparison data for 2015 is unavailable.

Section 3

Strategic priorities and restructuring

Despite a renewed focus on efficiency, risk management and regulatory compliance will continue to lead the banking agenda.

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

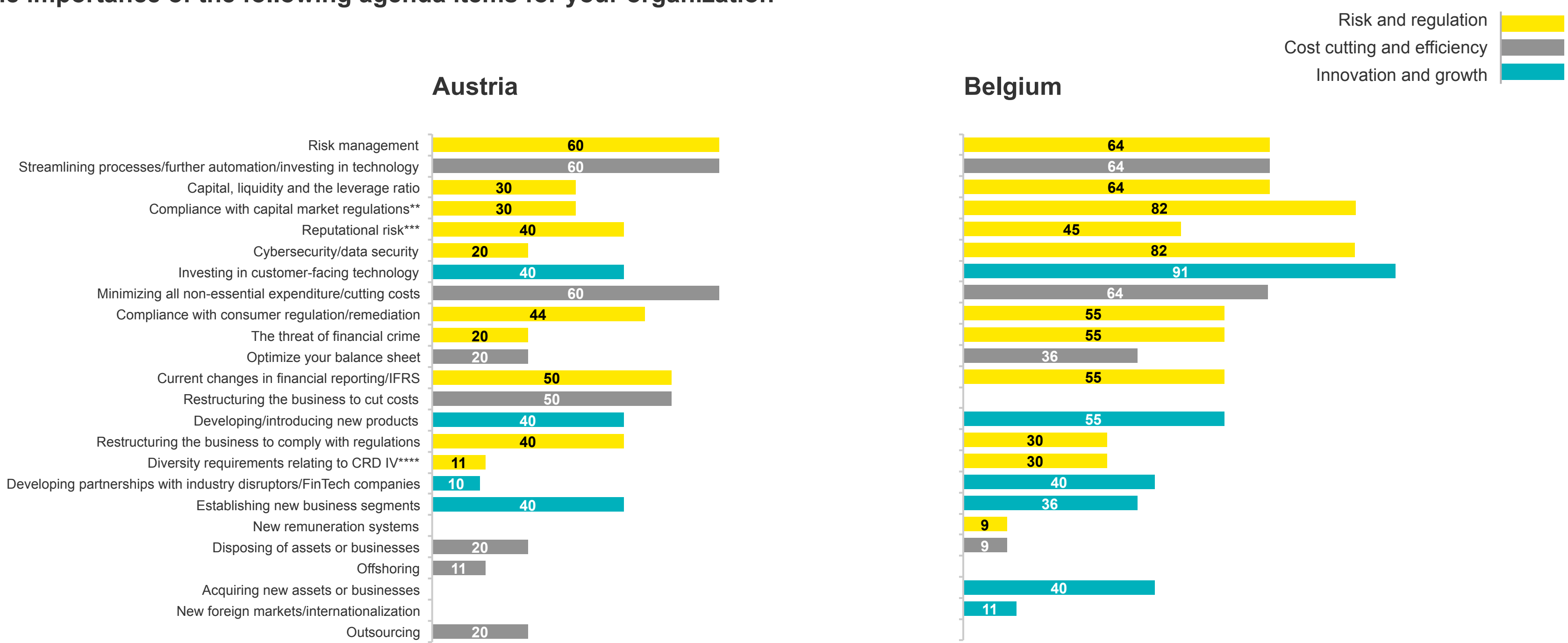


Comments: Increased emphasis on the efficiency agenda is expected in 2016. Streamlining processes remains the most important cost-reduction initiative, but 51% of respondents now see minimizing non-essential spend as critical, compared with just 37% in 2015. There is also greater focus on parts of the growth agenda, with investing in customer-facing technology a key priority for 53% of respondents, compared with just 43% in 2015. Another route to growth may be through partnerships with industry disruptors, and 23% of respondents expect partnering with FinTech firms to be important for their institution. Nevertheless, risk management and regulatory compliance will continue to dominate the banking agenda, and the 2016 EU-wide stress test means capital requirements will be a key focus for many institutions. Cybersecurity has also gained greater prominence for bankers across Europe, with 56% citing it as important, up from 48% last year.

Base excludes respondents answering “Does not apply.”
* 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.
** Compliance with capital market regulations includes MiFID/EMIR.
*** Reputational risk includes tax transparency, remuneration and cultural issues.
**** Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

Banks in some markets, such as Belgium and the Nordics, see investing in customer technology as their No.1 priority.

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



Base excludes respondents answering “Does not apply.”
* 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.
** Compliance with capital market regulations includes MiFID/EMIR.
*** Reputational risk includes tax transparency, remuneration and cultural issues.
**** Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

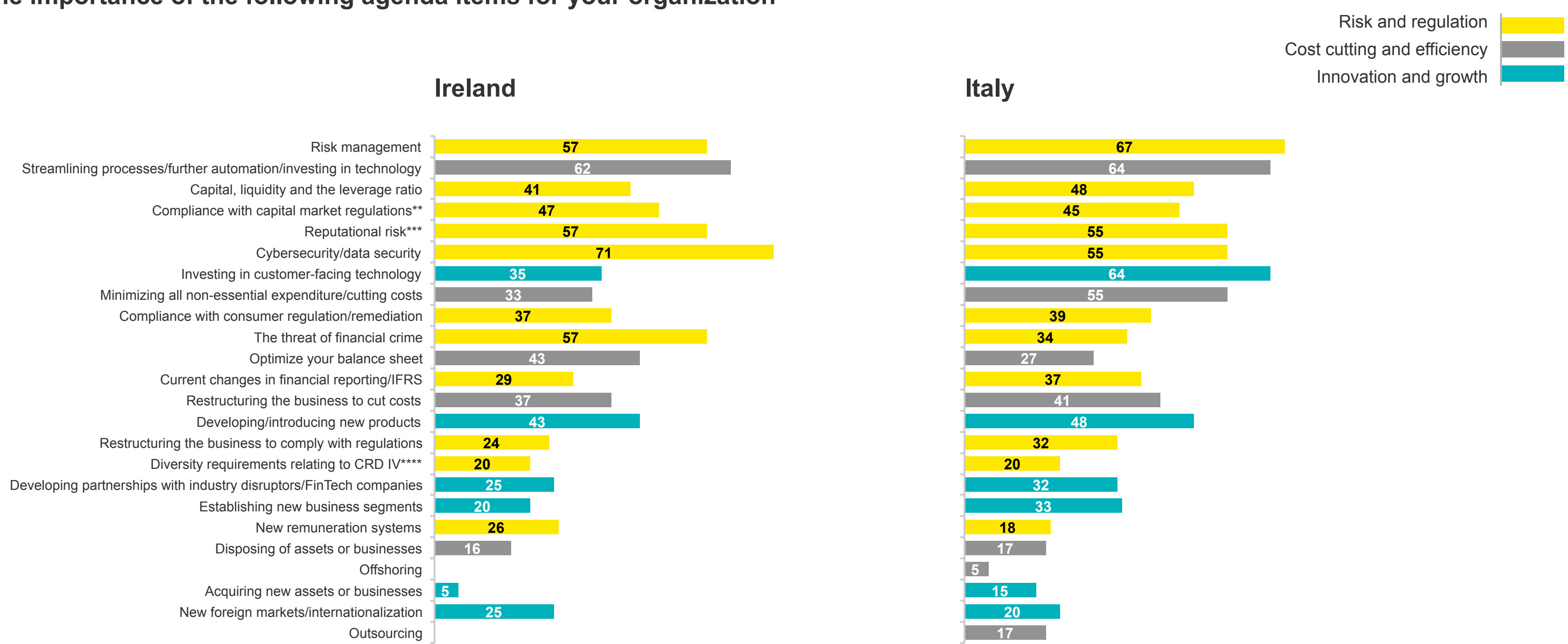
It is also the main focus for growth for banks in many other markets, including Germany and Italy …

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

Base excludes respondents answering “Does not apply.”
* 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.
** Compliance with capital market regulations includes MiFID/EMIR.
*** Reputational risk includes tax transparency, remuneration and cultural issues.
**** Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

… while banks in Ireland are focused on introducing more products to deliver growth.

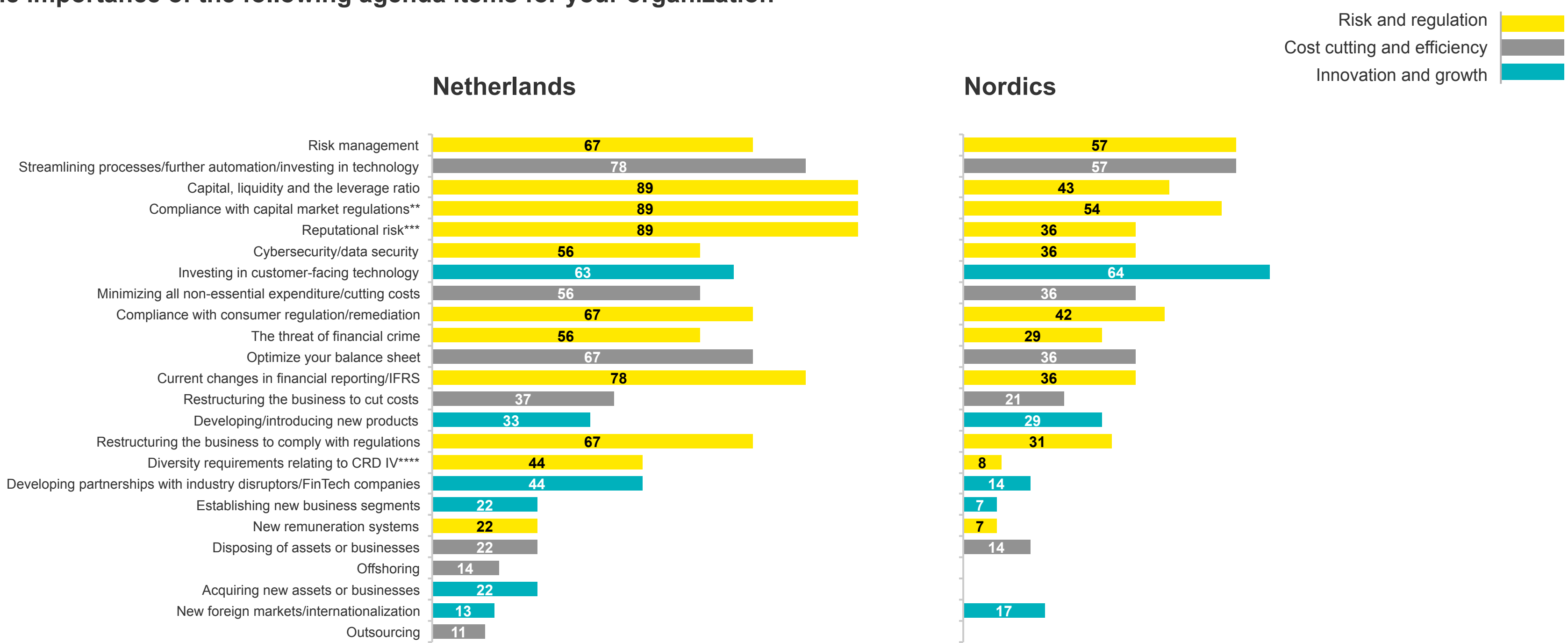
Rank the importance of the following agenda items for your organization*



Base excludes respondents answering “Does not apply.”
* 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.
** Compliance with capital market regulations includes MiFID/EMIR.
*** Reputational risk includes tax transparency, remuneration and cultural issues.
**** Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

A significant minority of bankers in a number of markets see partnerships with industry disruptors as a path to growth.

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



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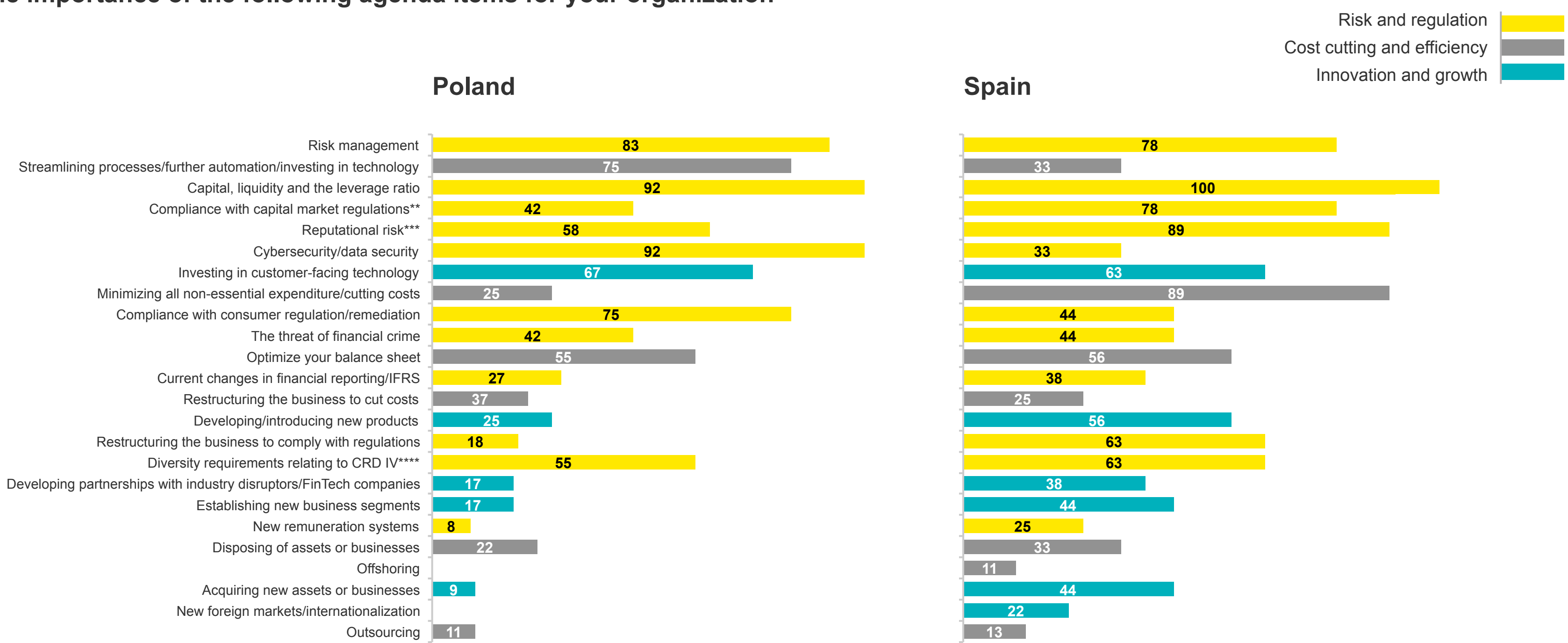
* Respondents were asked to rank the importance of activities on a scale of 0 to 10, where 0 denotes “Not at all important” and 10 denotes “Very important.” Numbers show the percentage of respondents selecting either 8, 9 or 10.
** Compliance with capital market regulations includes MiFID/EMIR.
*** Reputational risk includes tax transparency, remuneration and cultural issues.
**** Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

Yet the risk and regulatory agenda will preoccupy most banks, including enhancing cybersecurity in Poland and meeting …

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



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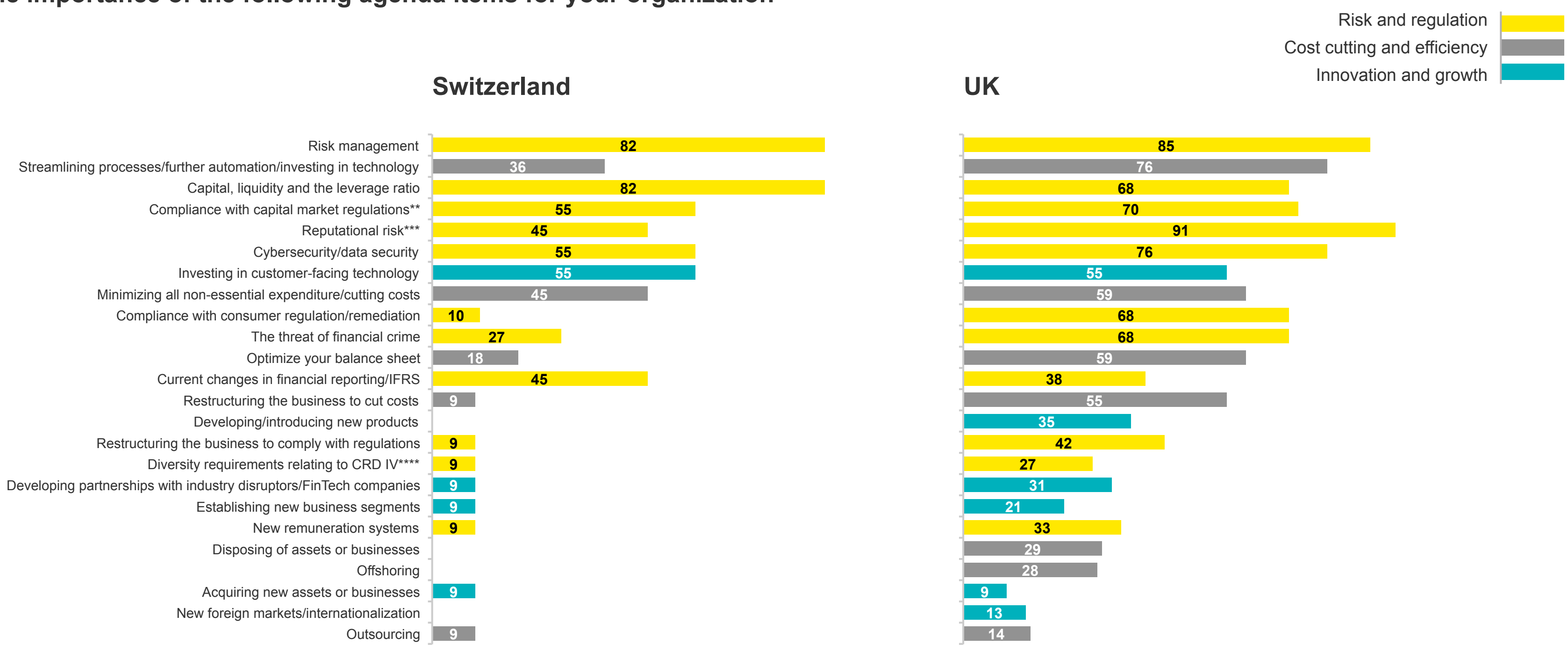
** Compliance with capital market regulations includes MiFID/EMIR.
*** Reputational risk includes tax transparency, remuneration and cultural issues.
**** Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

… capital requirements in Spain and Switzerland. In the UK, the focus for most banks will be managing reputational risk.

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



Base excludes respondents answering “Does not apply.”
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** Compliance with capital market regulations includes MiFID/EMIR.
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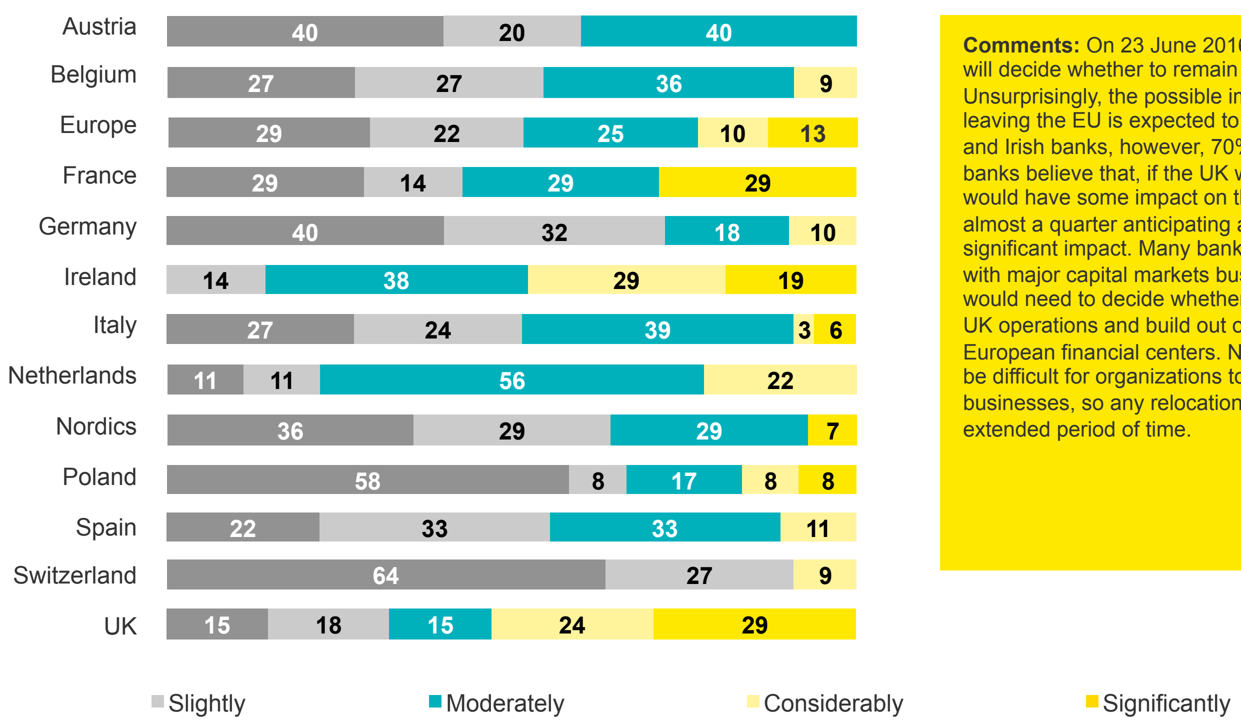
**** Diversity requirements relating to CRD IV – putting in place a policy to promote diversity on the management board.

Should the UK vote to leave the EU in June, over 70% of banks would be impacted.

If the UK was to leave the EU, to what extent would it impact your business?*

2016**

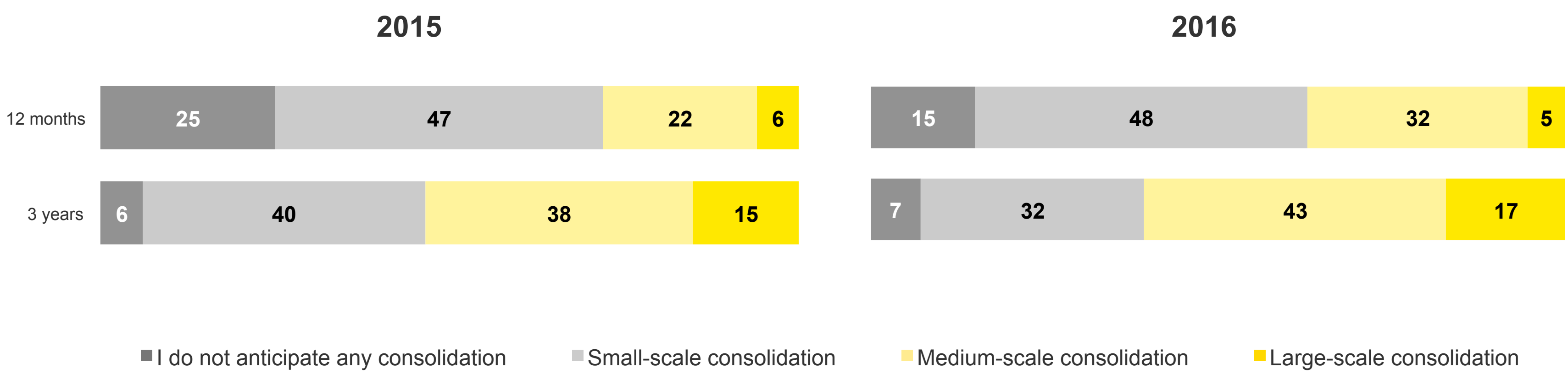


Comments: On 23 June 2016, voters in the UK will decide whether to remain in, or leave, the EU. Unsurprisingly, the possible impact of the UK leaving the EU is expected to be greatest for UK and Irish banks, however, 70% of all European banks believe that, if the UK were to leave, it would have some impact on their business, with almost a quarter anticipating a considerable or significant impact. Many banks, especially those with major capital markets businesses in London, would need to decide whether to scale down their UK operations and build out operations in other European financial centers. Nevertheless, it would be difficult for organizations to “lift and shift” businesses, so any relocation is likely to take an extended period of time.

* Numbers reflect the percentage of respondents who answered. Base excludes respondents who answered “Don’t know.”
** This question was added in 2016, so comparison data for 2015 is unavailable.

More bankers now expect some degree of consolidation in their market in the next 12 months.

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

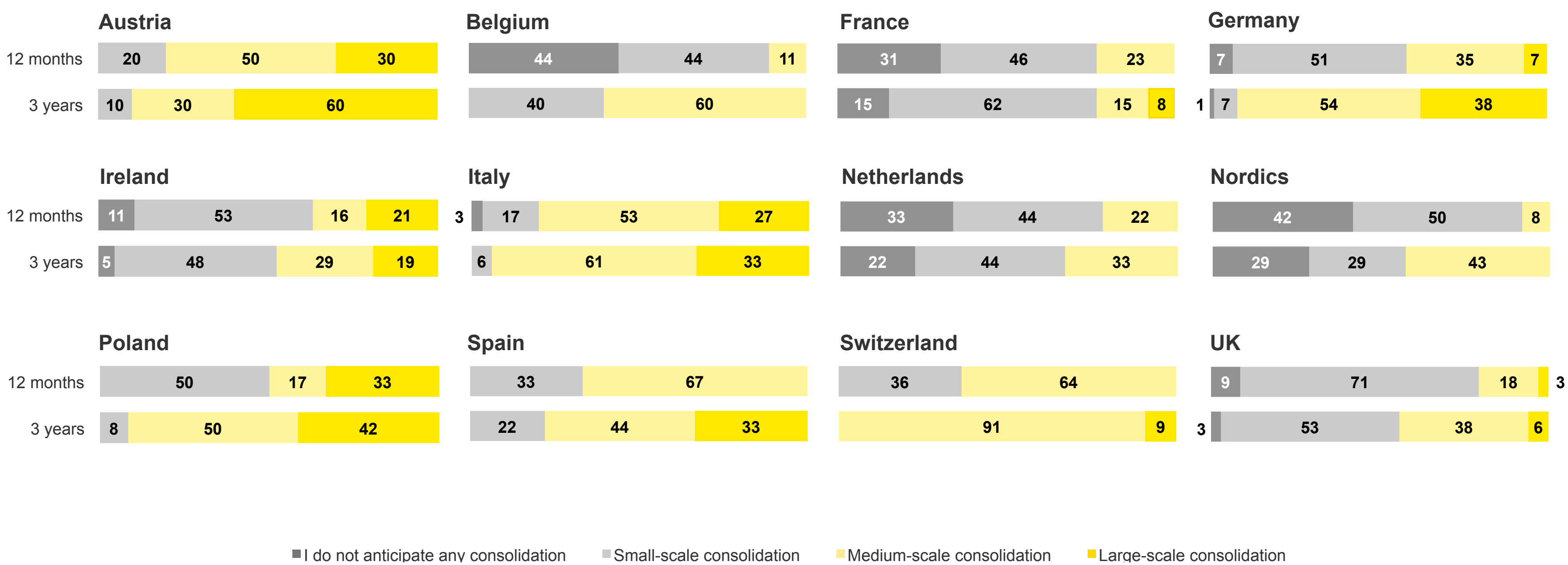


Comments: Eighty-five percent of respondents now anticipate some industry consolidation in the next 12 months. Most of this activity is expected to be small in scale, suggesting that banks will continue only to make disposals or acquisitions of small books of business that are closely aligned to their core strategy. However, the pace of consolidation may now be picking up. There is a modest increase in those expecting medium- or large-scale consolidation in the next 12 months – now 37% compared with just 28% last year – as well as an increase in the number of bankers expecting significant consolidation over the next three years. In the near term, consolidation may be encouraged where regulators are concerned about the solvency, stability and resolution of banks in Europe. The greatest consolidation is anticipated in markets where banks were shown to have capital shortfalls or where there is overcapacity, such as in Italy. Over the longer term, consolidation may be supported by an improvement in transparency through the introduction of the Single Supervisory Mechanism (SSM), initiating uniform capital structures and better clarity on asset valuations.

* Numbers reflect the percentage of respondents who answered. Base excludes respondents who answered “Don’t know.”

Over the next three years, the most significant consolidation is expected in Austria, Germany and Poland.

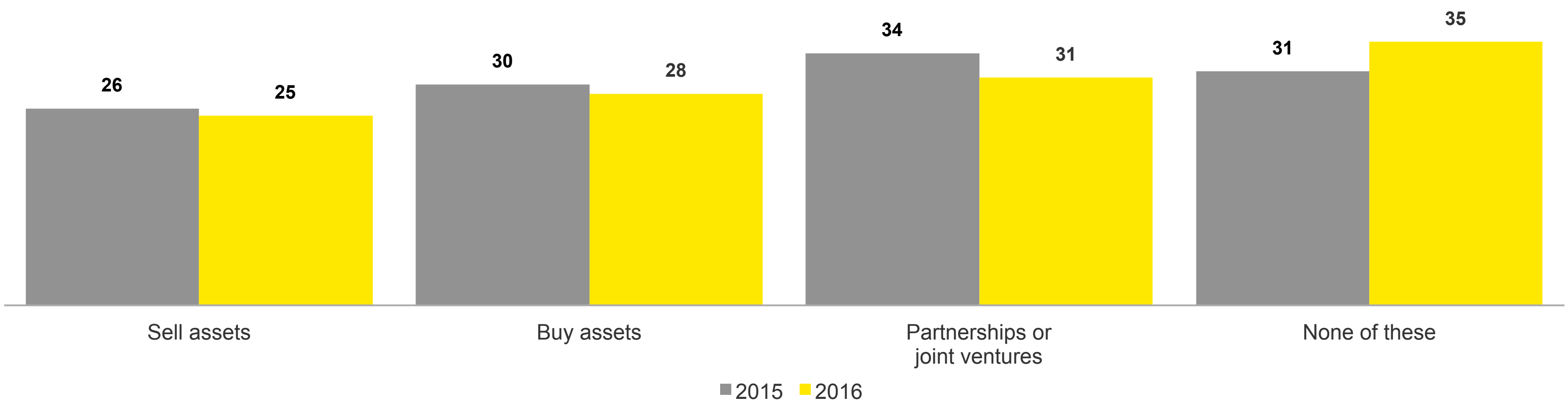
To what extent do you anticipate consolidation of the banking industry in your market over the next 12 months and within the next three years?*



* Numbers reflect the percentage of respondents who answered. Base excludes respondents who answered “Don’t know.”

However, partnerships or joint ventures remain banks' preferred path to inorganic growth in most markets …

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?*

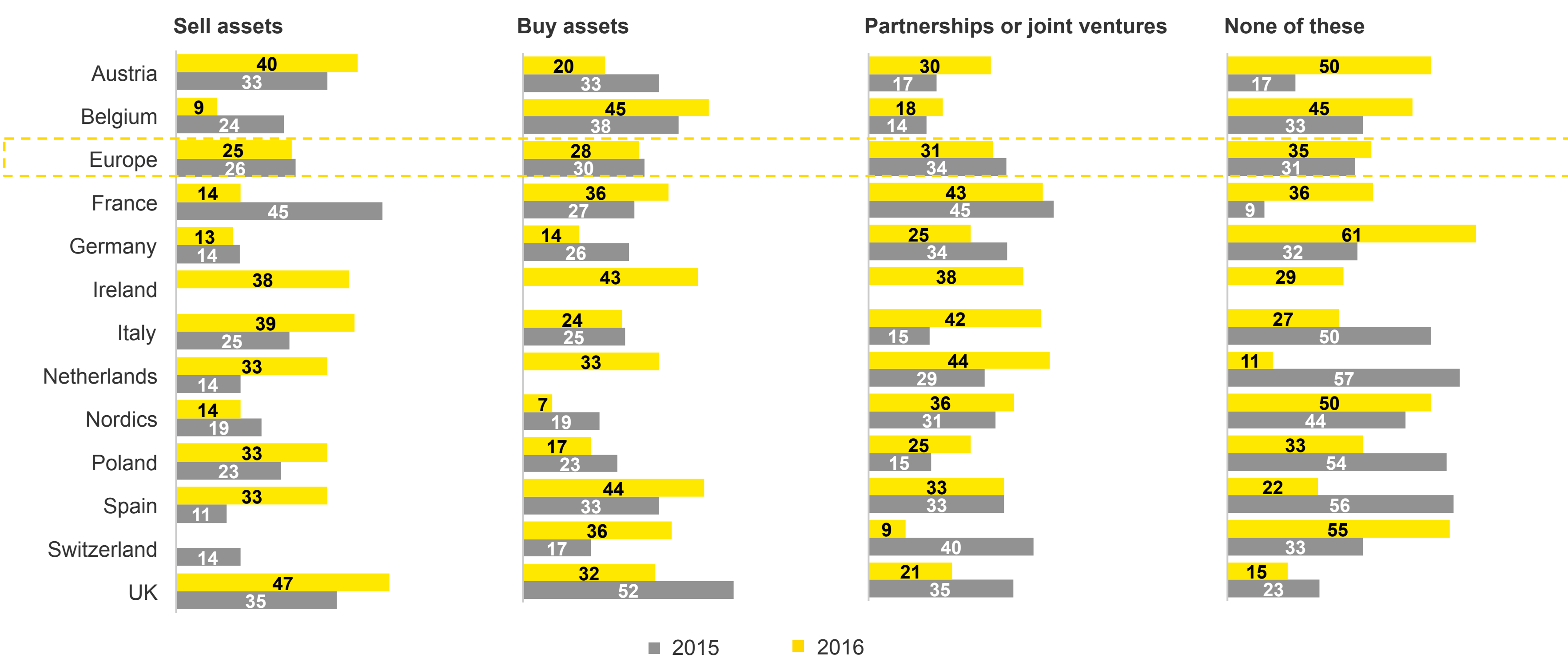


Comments: Banks' appetite for acquisitions, disposals and partnerships is little changed from last year. With emerging regulation encouraging global banks to reduce their geographic coverage, partnerships – for example, correspondent banking relationships – are likely to remain the preferred form of inorganic growth or route to access new markets. This is reflected in the rise in disposals and partnerships in the Americas. Furthermore, while historically they have been focused on small acquisitions or disposals to enhance their core business, we believe that banks are now increasingly looking for acquisitions and partnerships with technology firms. Not only did 23% of respondents cite partnerships with FinTech companies as a key priority for 2016, but more than half believe investment in customer-facing technology is a critical agenda item this year. With many banks preoccupied by regulatory compliance, and challenged by budget cuts, partnerships with FinTech firms may play a key role in developing and deploying new technologies to support their growth agenda.

* Numbers reflect the percentage of respondents who answered.

… except for Belgium, Ireland and Spain, where acquisitions are expected.

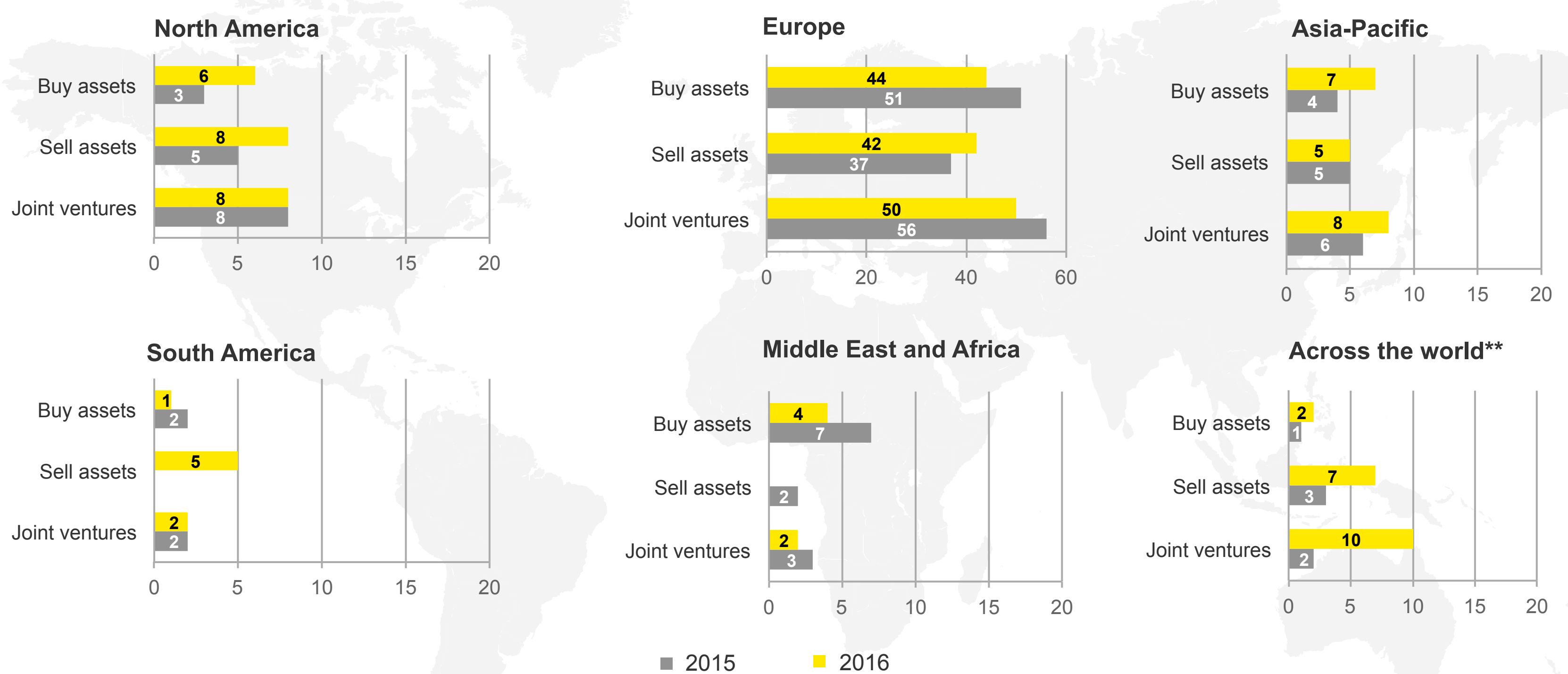
Which, if any, of the following is your bank likely to consider over the next 12 months in relation to the countries in which it operates?*



* Numbers reflect the percentage of respondents who answered.

And joint ventures will play a key role for banks looking to expand in new markets.

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



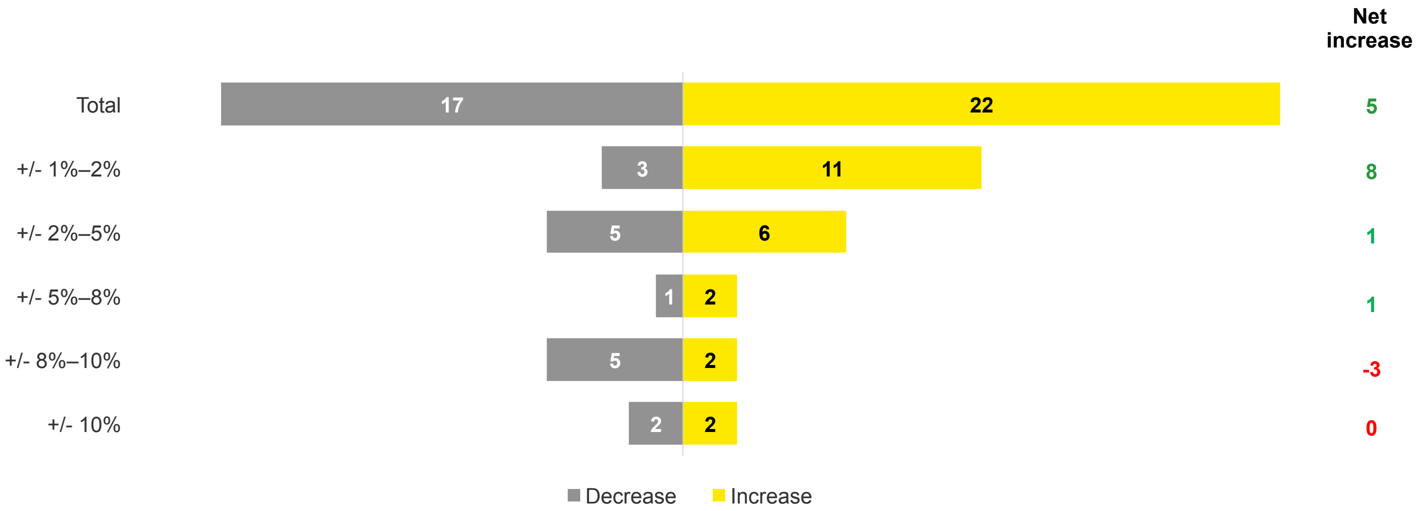
* Numbers represent the total number of mentions for that particular region. Respondents could state more than one region.
** Includes responses for “Rest of the world” and “Worldwide.”

Section 4

Compensation and headcount

Pay rises are expected to be modest in light of regulatory and investor pressures.

Compared with the last 12 months (FY15), to what extent will aggregate (i.e., total fixed and performance-related) compensation change at your bank over the next 12 months (FY16)?*

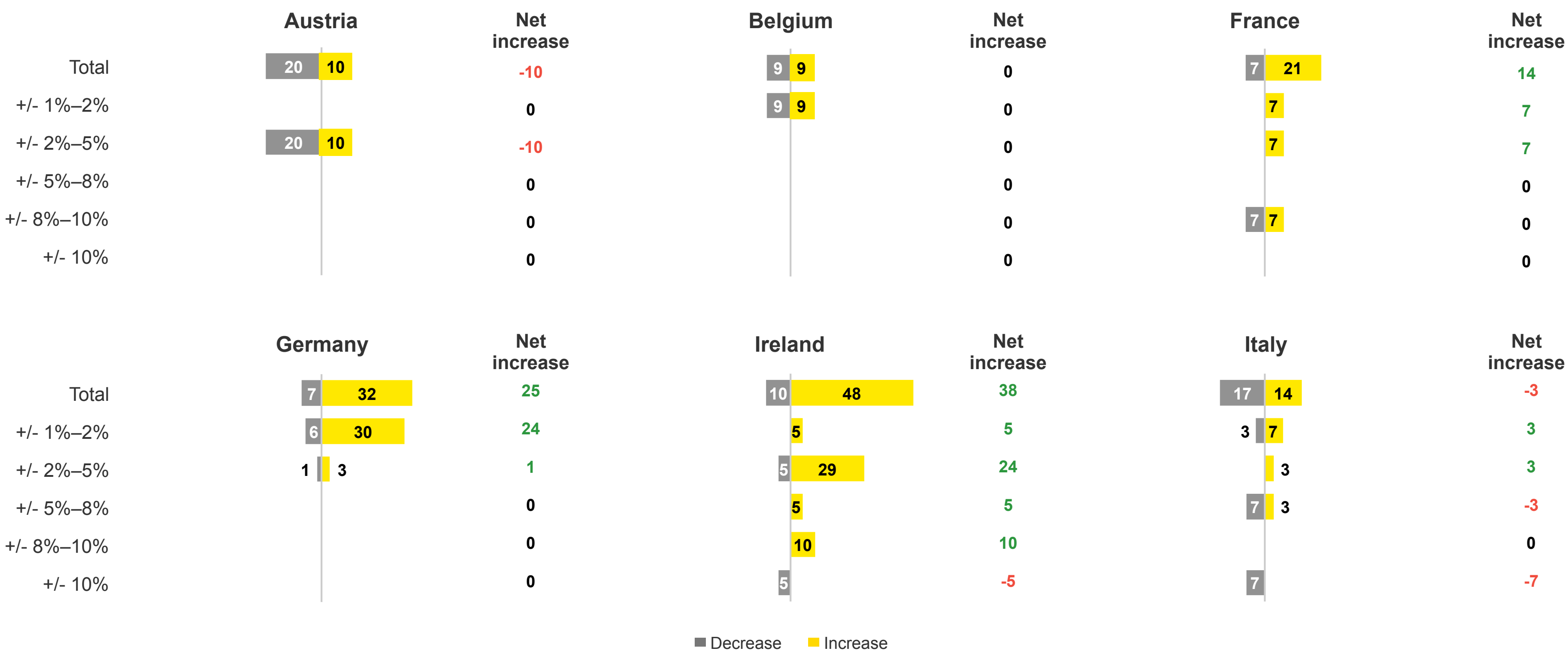


Comments: Bankers anticipate ongoing moderation of pay, reflecting the impact of weak business performance, as well as regulatory and shareholder pressure. Although 22% of bankers still anticipate a rise in aggregate pay in 2016 – the same number as in 2015 – just 12% anticipate a rise greater than 2%, compared with 17% last year, while 60% of bankers expect aggregate pay to remain flat in 2016. This trend is likely to continue as institutions will face greater regulatory pressure when the EBA sets out its "sound remuneration policies," which are expected to come into force by January 2017, introducing new rules limiting bonuses to a maximum of two times salary. Pay must now be better aligned to both institutional and individual performance, as well as to risk. The downward pressure on pay may mean banks will need to find new approaches to recruiting and retaining staff in future.[3]

Base excludes respondents answering "Don't know."
* Numbers reflect the percentage of respondents who answered. Respondents answering "Stay the same" are not displayed.
[3] EY's *Global Banking Outlook 2016: Transforming talent* – The banker of the future is available to download at ey.com/bankingtalent.

Bankers in France, Germany, Ireland, the Nordics and Switzerland anticipate small increases in pay …

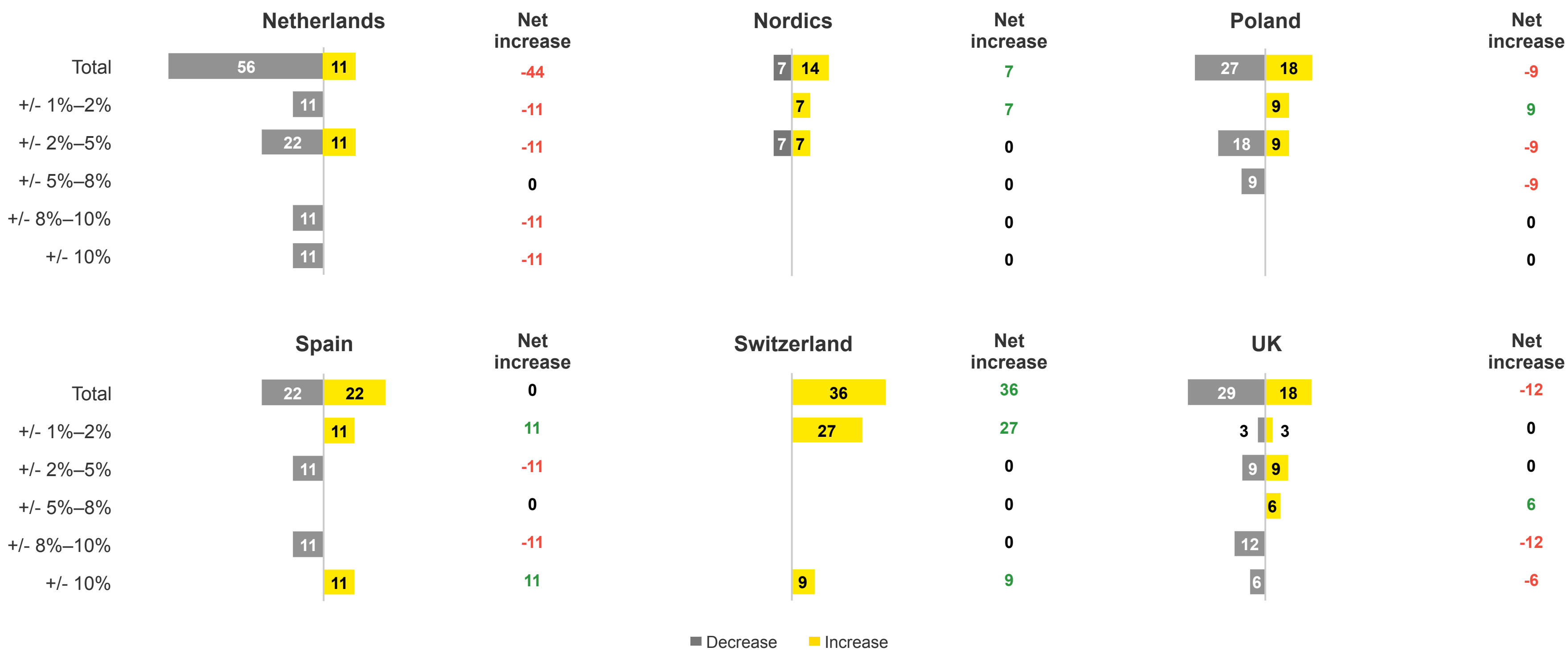
Compared with the last 12 months (FY15), to what extent will aggregate (i.e., total fixed and performance-related) compensation change at your bank over the next 12 months (FY16)?*



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

… but remuneration is expected to fall in most other markets, with the Netherlands and the UK anticipating some of the greatest cuts.

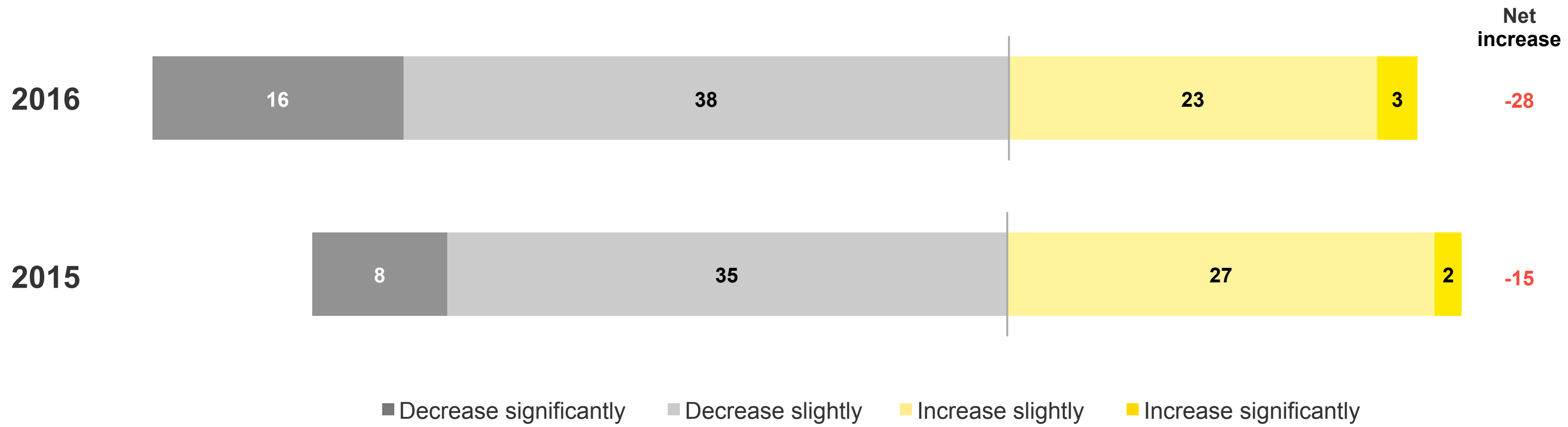
Compared with the last 12 months (FY15), to what extent will aggregate (i.e., total fixed and performance-related) compensation change at your bank over the next 12 months (FY16)?*



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

With a renewed focus on cost cutting in many markets, most bankers anticipate further reductions in headcount …

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

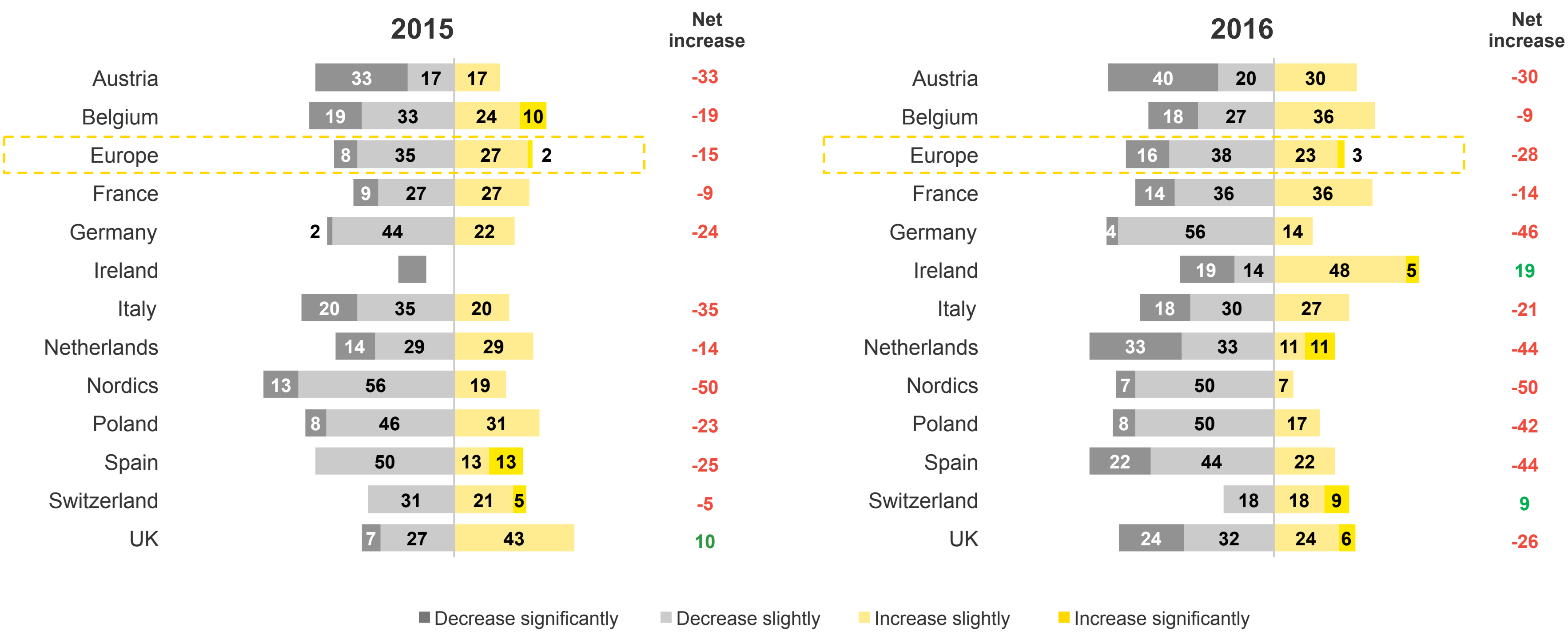


Comments: With cost cutting a greater priority for banks in 2016, it is unsurprising that more bankers now anticipate headcount reductions – one of the quickest ways of reducing expenditure. Fifty-four percent of bankers now expect headcount to fall, compared with just 43% in 2015. Despite this renewed focus on reducing staff numbers, outsourcing and offshoring remain relatively low priorities for banks in the near term. However, we anticipate an increase in banks entering outsourcing or managed service partnerships in the medium term, as job cuts force banks to seek more cost-efficient ways to deliver non-core services.

Base excludes respondents answering “Don’t know/Depends.”
* Numbers reflect the percentage of respondents who answered. Respondents answering “Stay the same” are not displayed.

… except in Ireland and Switzerland, where a rise in headcount is anticipated.

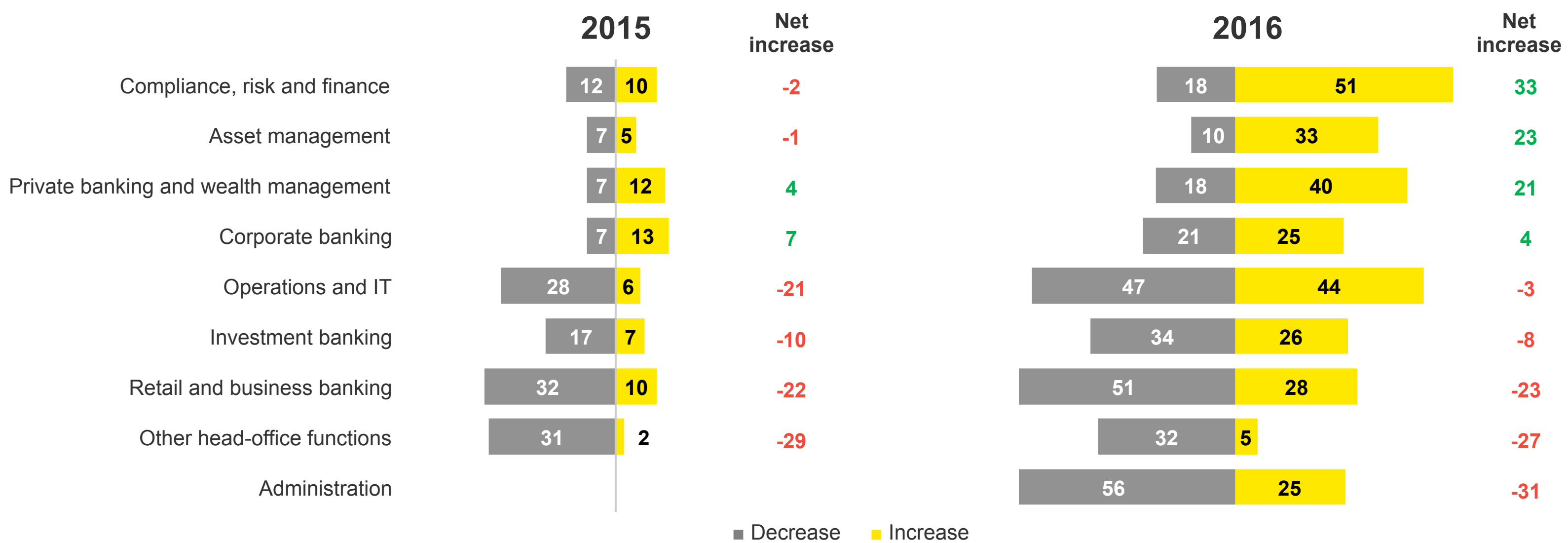
Over the next 12 months, how do you expect the headcount of your bank to change?*



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

Most job cuts will be in administrative and head-office functions, as well as in retail banking.

In which areas of the business do you expect headcount to change?*

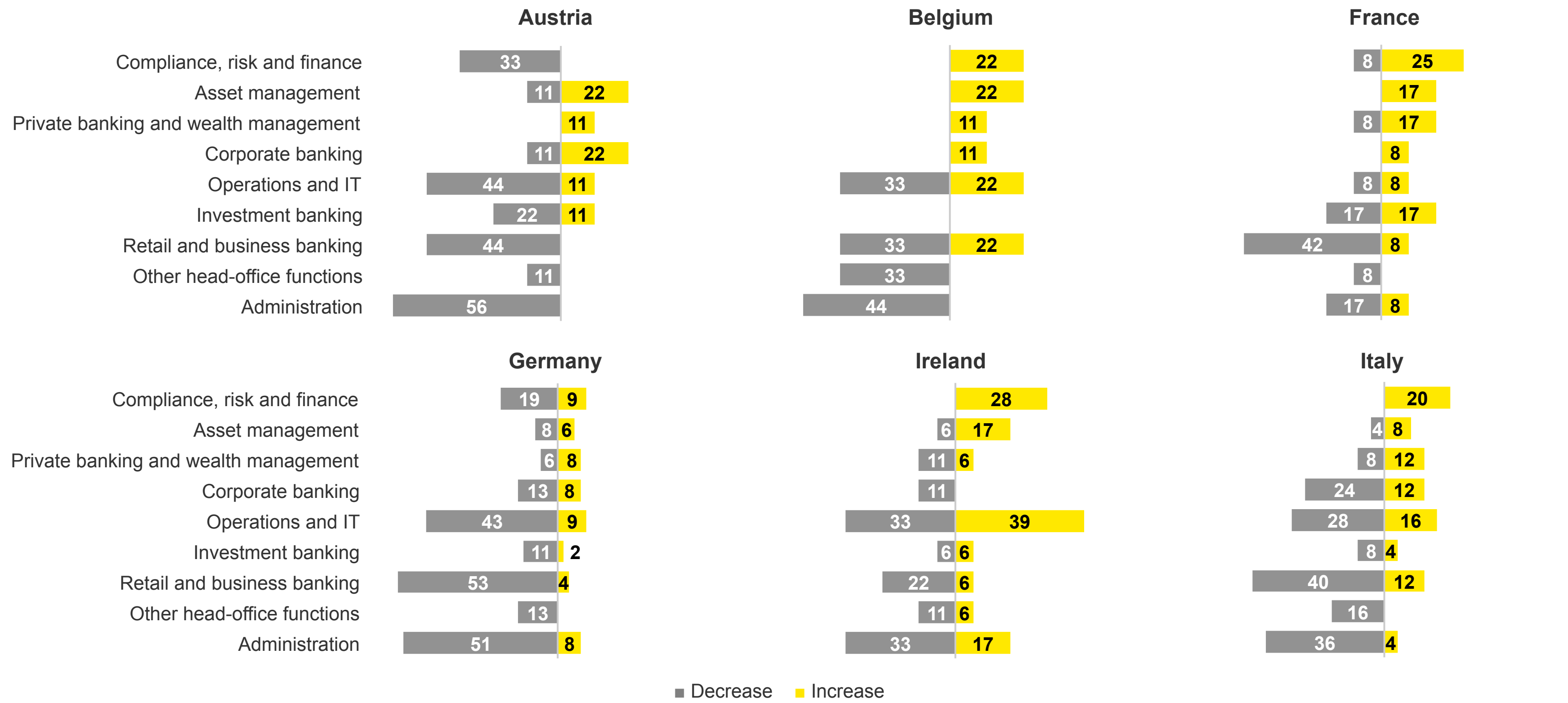


Comments: As in last year, the greatest headcount reductions are anticipated in operations and IT, other head-office functions and retail banking. Unsurprisingly, recruitment will be focused on growth sectors such as corporate banking, private banking, and wealth and asset management. However, in contrast to 2015, most markets anticipate an increase in headcount in compliance, risk and finance, which reflects the prioritization of risk and regulation across the industry.

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

However, some hiring is anticipated in growth businesses such as private banking and asset management.

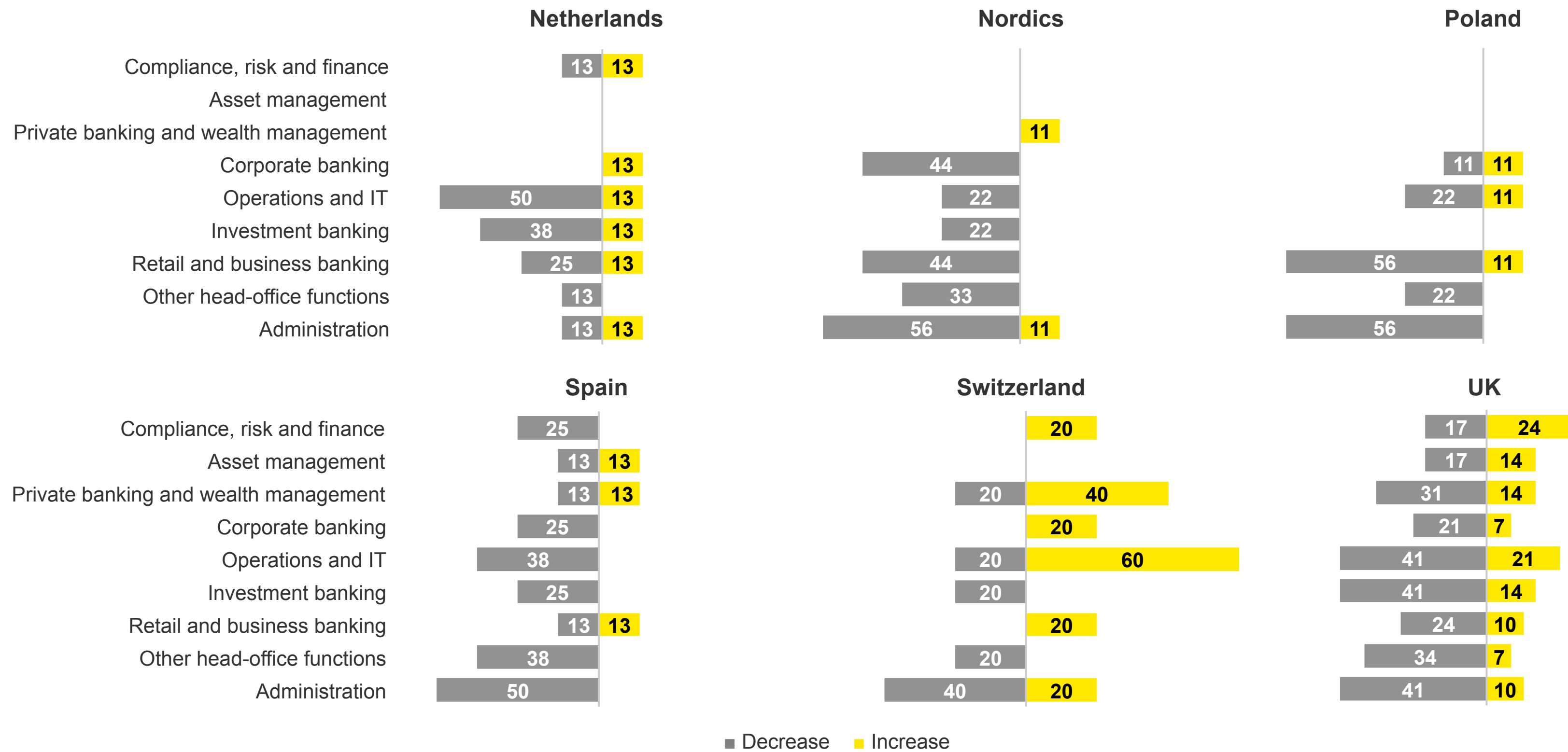
In which areas of the business do you expect headcount to change?*



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

And most markets anticipate an increase in compliance staff, except in Austria, the Nordics, Poland and Spain.

In which areas of the business do you expect headcount to change?*



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

Section 6

Outlook by market

Market	Financial performance	Headcount	Compensation	Strategic priority
Austria	40%	-30%	-10%	60% **Highest strategic priorities** 1) Risk management 2) Streamlining processes, further automation and investing in technology 3) Minimizing all non-essential expenditure and cutting costs
Belgium	18%	-9%	0%	91% **Highest strategic priority** Investing in new customer-facing technology, e.g., mobile solutions
France	21%	-14%	14%	71% **Highest strategic priorities** 1) Risk management 2) Cybersecurity and data security

Risk and regulation　Cost cutting and efficiency　Innovation and growth

Net number of respondents anticipating improvement (Λ) / worsening of financial performance (V).
Net number of respondents anticipating headcount increase (Λ) / decrease (V).
Net number of respondents anticipating compensation increase (Λ) / decrease (V).

Market	Financial performance	Headcount	Compensation	Strategic priority
Germany	-11%	-46%	25%	67% **Highest strategic priority** Streamlining processes, further automation and investing in technology
Ireland	71%	19%	38%	71% **Highest strategic priority** Cybersecurity and data security
Italy	45%	-21%	-3%	67% **Highest strategic priority** Risk management

Risk and regulation Cost cutting and efficiency Innovation and growth

Net number of respondents anticipating improvement (∧)/ worsening of financial performance (∨).
Net number of respondents anticipating headcount increase (∧) / decrease (∨).
Net number of respondents anticipating compensation increase (∧) / decrease (∨).

Market	Financial performance	Headcount	Compensation	Strategic priority
Netherlands	56% ∧	-44% ∨	-44% ∨	89% **Highest strategic priorities** 1) Capital, liquidity and the leverage ratio 2) Reputational risk 3) Compliance with capital markets regulations (e.g., MiFID II/EMIR)
Nordics	36% ∧	-50% ∨	7% ∧	64% **Highest strategic priority** Investing in new customer-facing technology, e.g., mobile solutions
Poland	-58% ∨	-42% ∨	-9% ∨	92% **Highest strategic priority** Capital, liquidity and the leverage ratio

Risk and regulation | Cost cutting and efficiency | Innovation and growth

Net number of respondents anticipating improvement (∧) / worsening of financial performance (∨).
Net number of respondents anticipating headcount increase (∧) / decrease (∨).
Net number of respondents anticipating compensation increase (∧) / decrease (∨).

Market	Financial performance	Headcount	Compensation	Strategic priority
Spain	44% ^	-44% v	0% >	100% **Highest strategic priority** Capital, liquidity and the leverage ratio
Switzerland	9% ^	9% ^	36% ^	82% **Highest strategic priorities** 1) Risk management 2) Capital, liquidity and the leverage ratio
UK	53% ^	-26% v	-12% v	91% **Highest strategic priority** Reputational risk

Risk and regulation

Cost cutting and efficiency

Innovation and growth

Net number of respondents anticipating improvement (Λ) / worsening of financial performance (V).
Net number of respondents anticipating headcount increase (Λ) / decrease (V).
Net number of respondents anticipating compensation increase (Λ) / decrease (V).

Section 7

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