

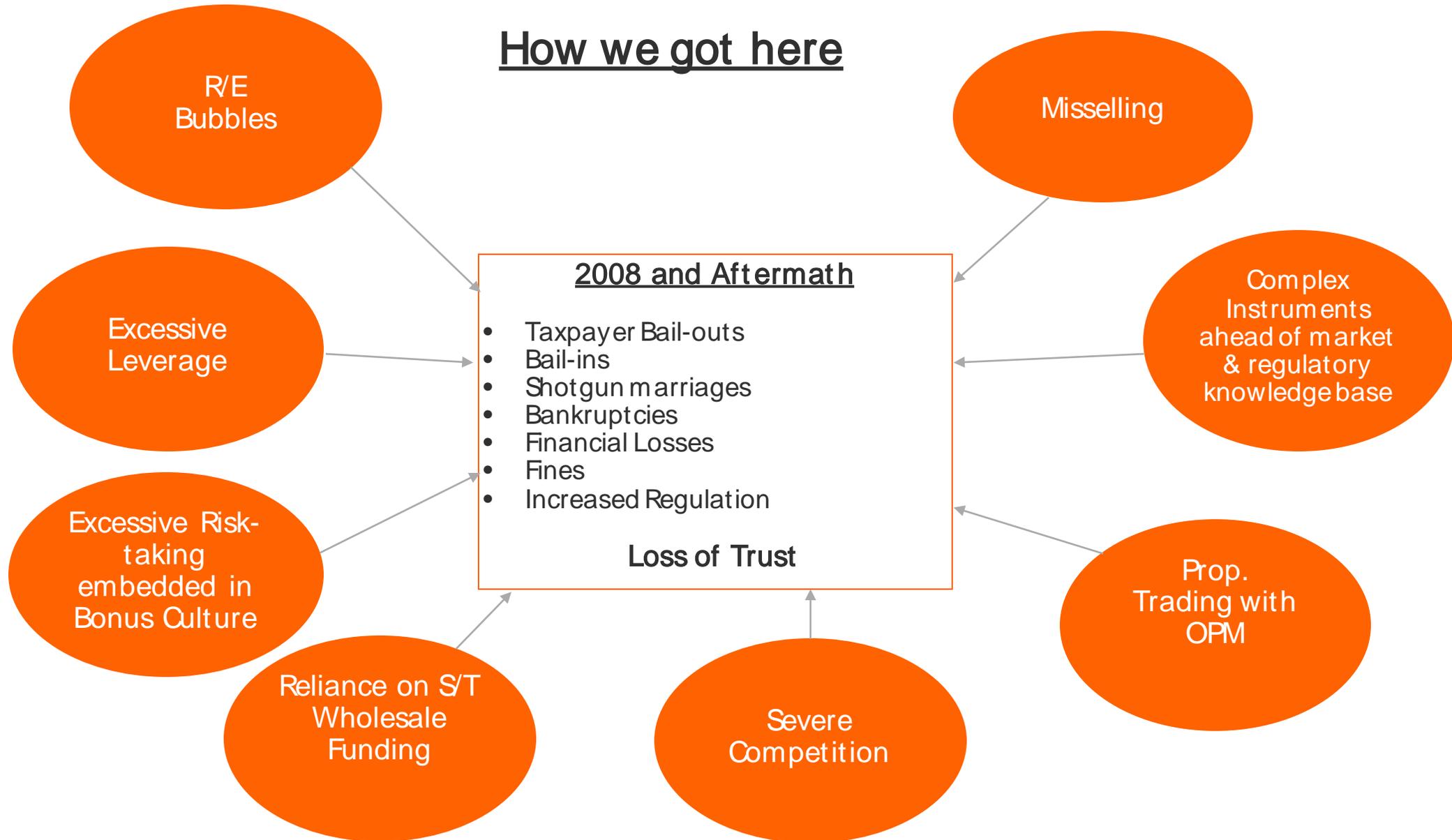
Euro Area Banking

The situation in the post 2008 world

John T. Mc Carthy,
INGBank A.Ş.
Turkey

Dublin, 29 Sept., 2016

How we got here

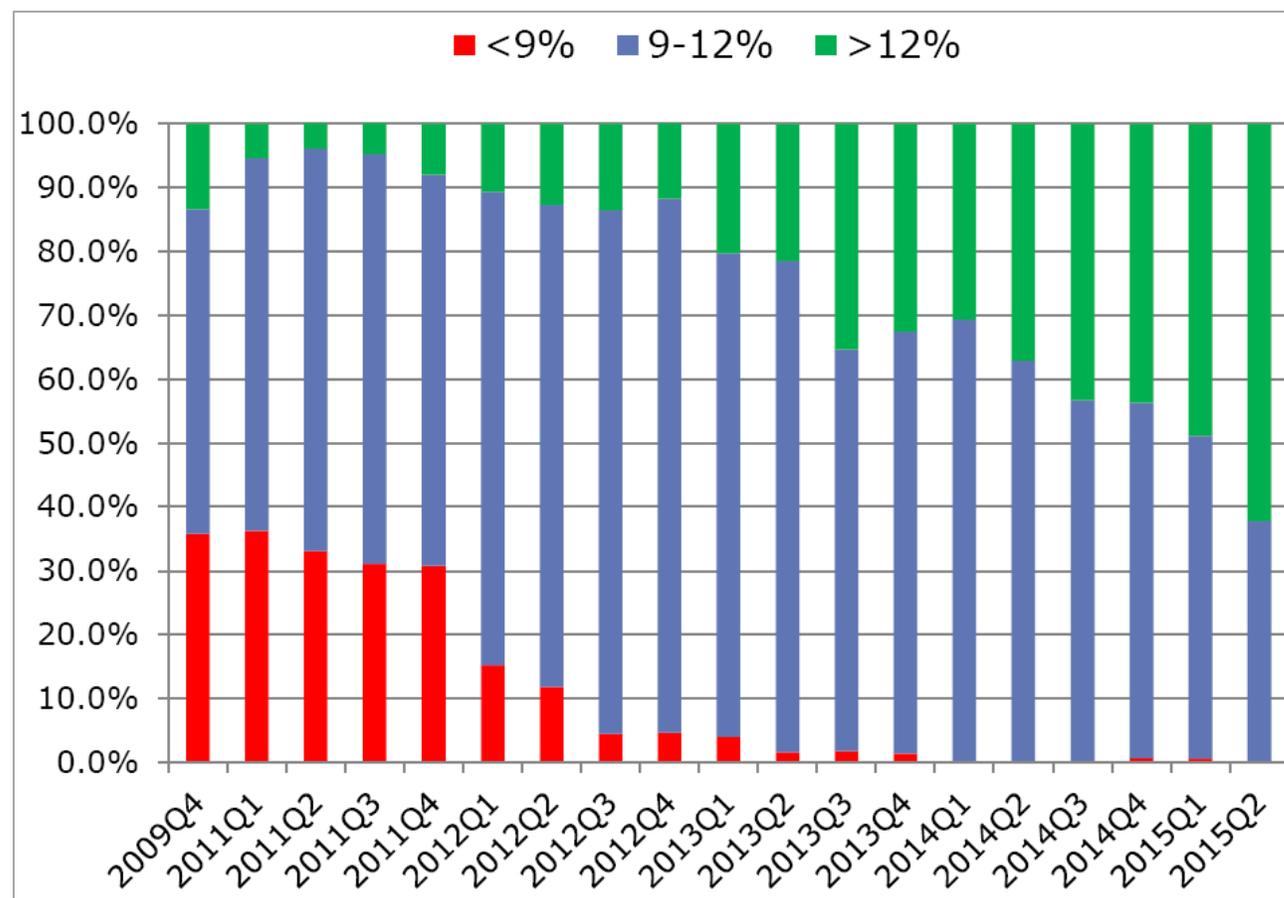


INCREASED CAPITAL REQUIREMENTS VS. COST OF DEBT: TIPPING POINT?

	2000-2007	2010-2016
European Banks		
Core Tier 1 capital ratio	8.4%	13.5%
Cost of Equity	10.0%	14.7%
Cost of Debt	3.4%	1.0%
ROE	15.9%	4.0%
P/B	1.7x	0.7x
U.S. Banks		
Core Tier 1 capital ratio	8.3%	12.5%
Cost of Equity	10.1%	13.2%
Cost of Debt	3.0%	1.4%
ROE	15.3%	7.5%
P/B	2.1x	0.9x

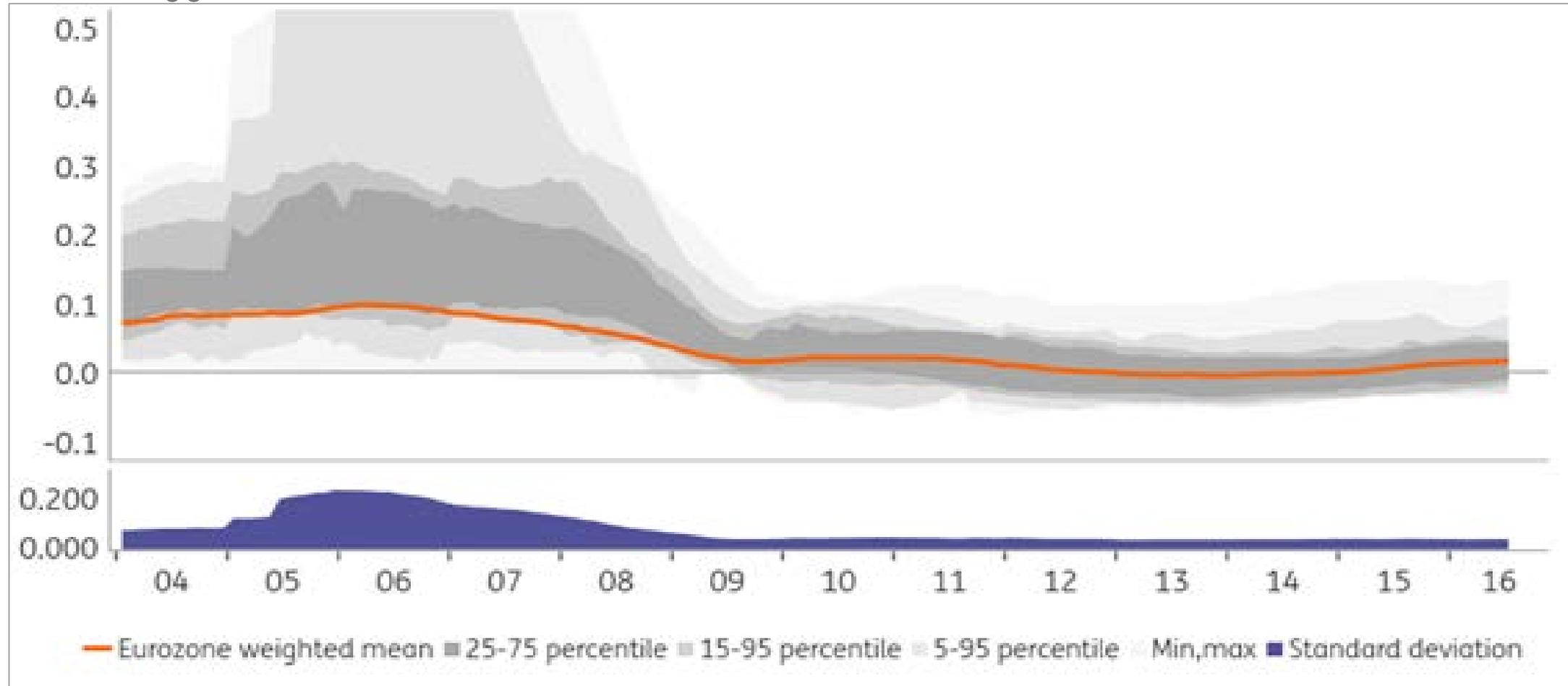
Euro area FIs continue to make steady progress in building up resilience, though still face challenges relating to weak growth prospects, legacy issues and regulatory changes.

Fractions of European banks with CET1 ratios in the indicated ranges



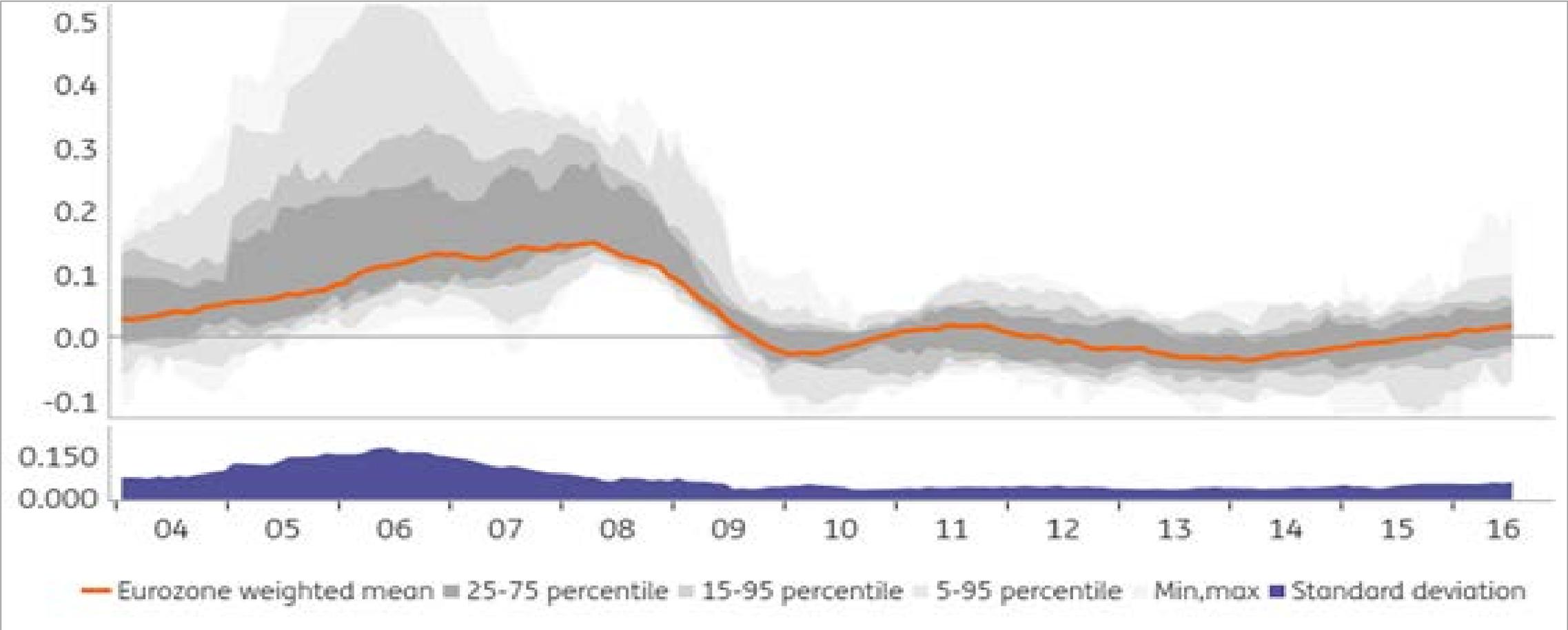
Growth has resumed in total loans for the Euro area, although at a slow pace. This is particularly important for SMEs, which are heavily bank dependent.

Bank lending growth to households

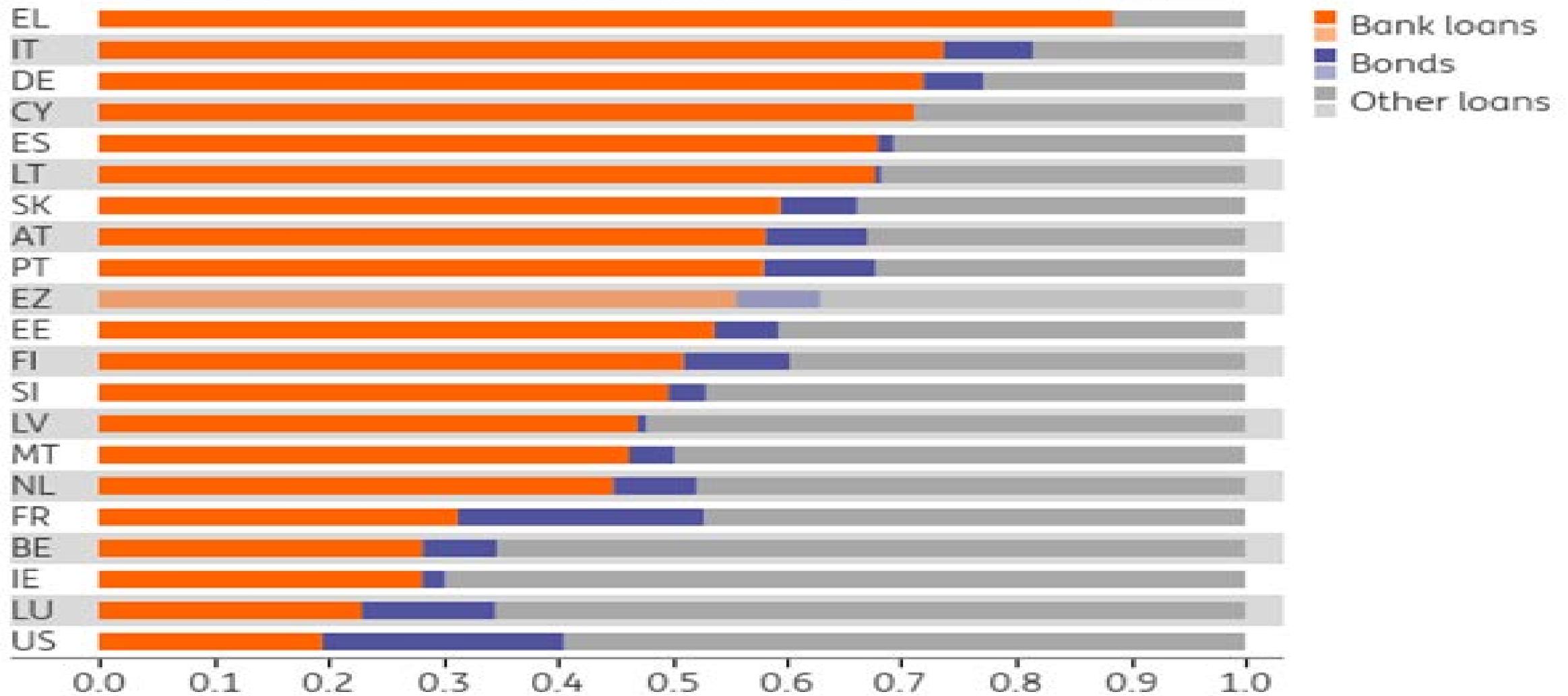


Growth has resumed in total household loans for the Euro area, although at a slow pace.

Bank lending growth to businesses



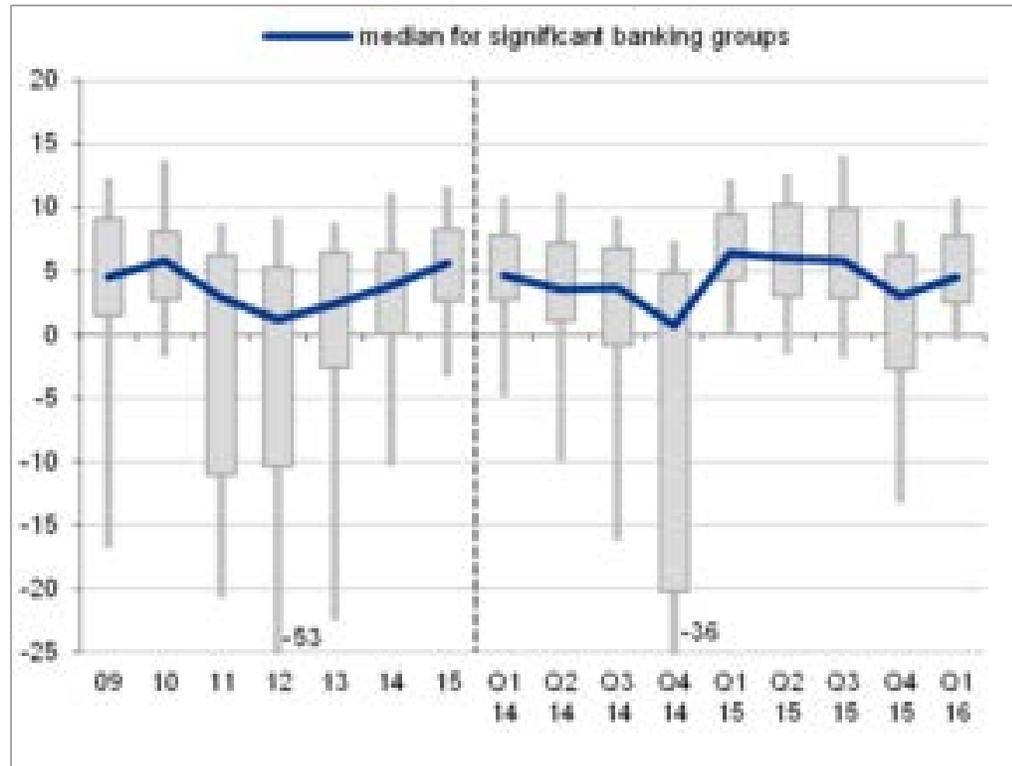
Shares in household + non-financial business debt financing



A key challenge for European banks is linked to the prolonged period of low profitability.

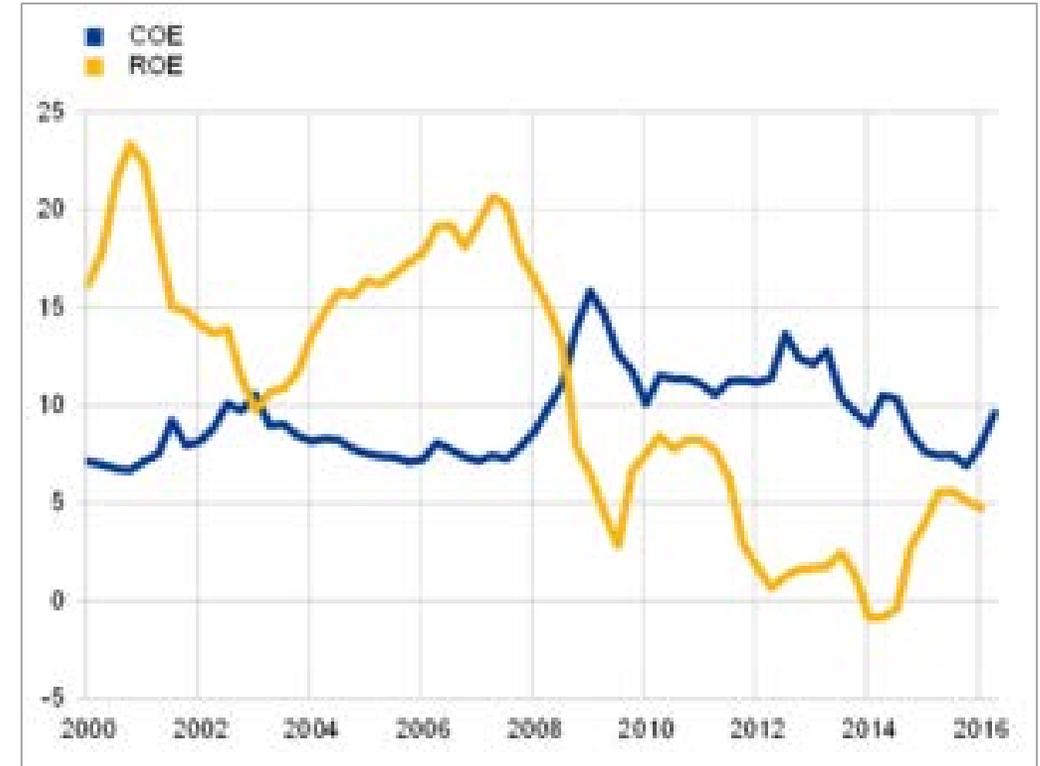
While bank profitability has recovered somewhat recently, it remains at very low levels.

Euro area banks' return on equity



1Q2009-2016; percentages; 10th and 90th percentiles, interquartile range and median

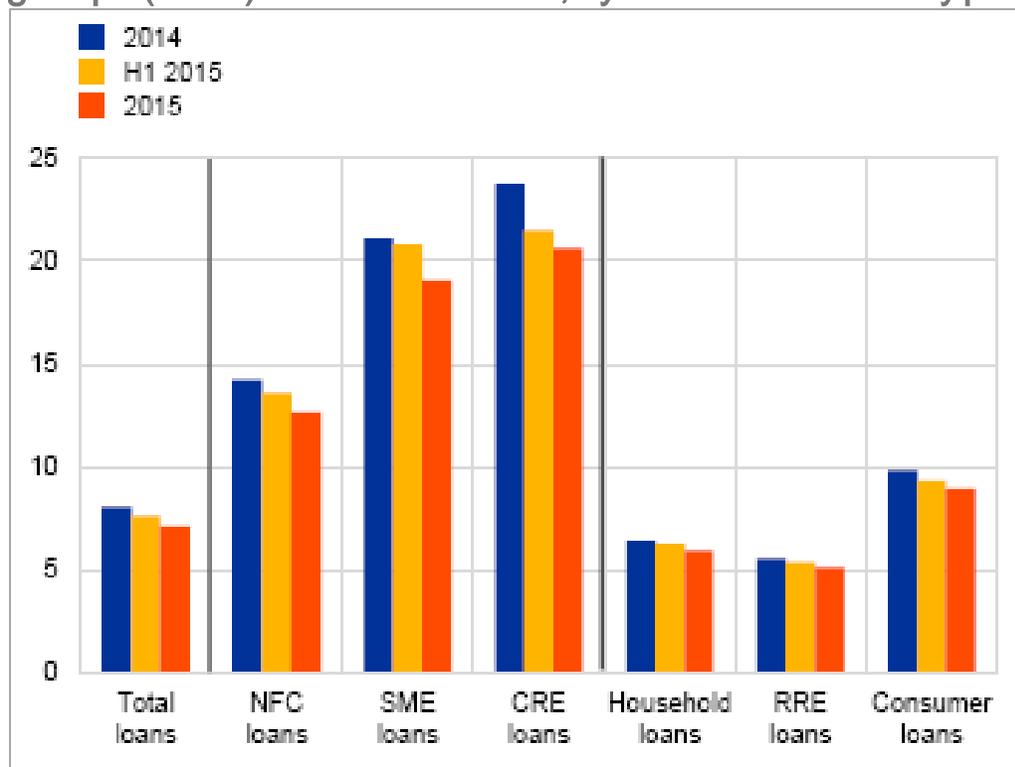
Return on equity and cost of equity for listed Euro area banks



1Q2000-2Q2016; percentages

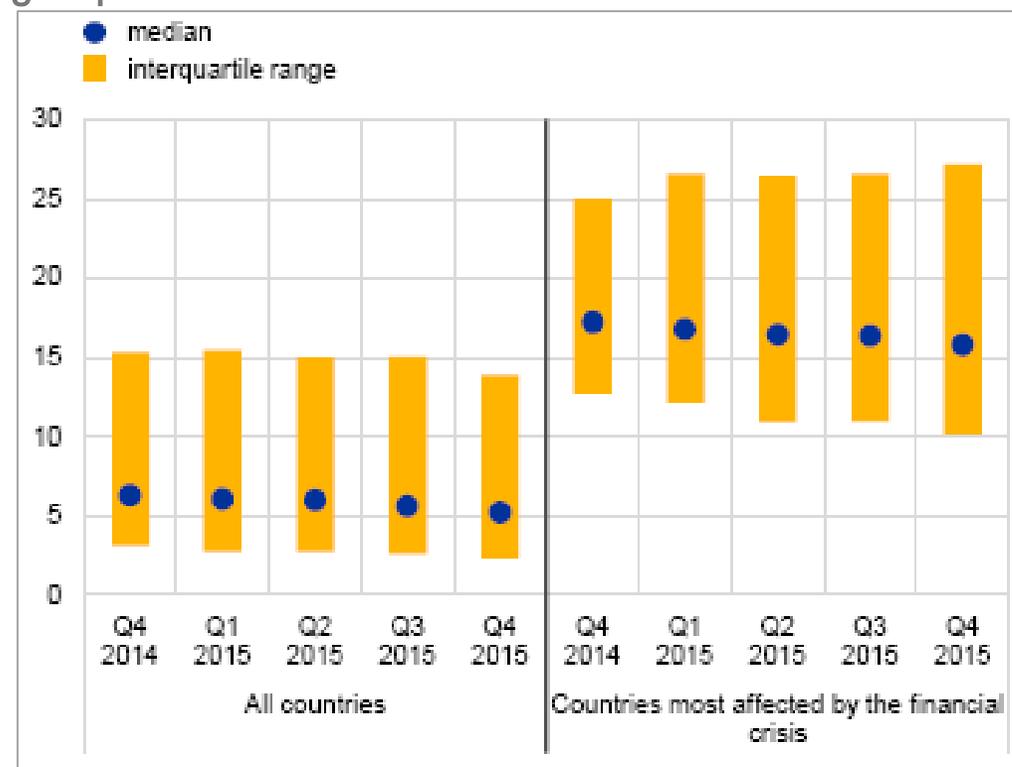
Large stock of legacy problem assets in some countries continues to dampen profitability and weighs on banks' capacity to extend new loans. Progress in reducing NPL remains slow.

Non-performing loan ratios of significant banking groups (SBGs) in the euro area, by sector and loan type



(2014-15; percentage of loans; weighted average across SBGs) Notes: Non-performing loan ratios are shown only for selected sectors/loan types. CRE and RRE stand for commercial real estate and residential real estate respectively.

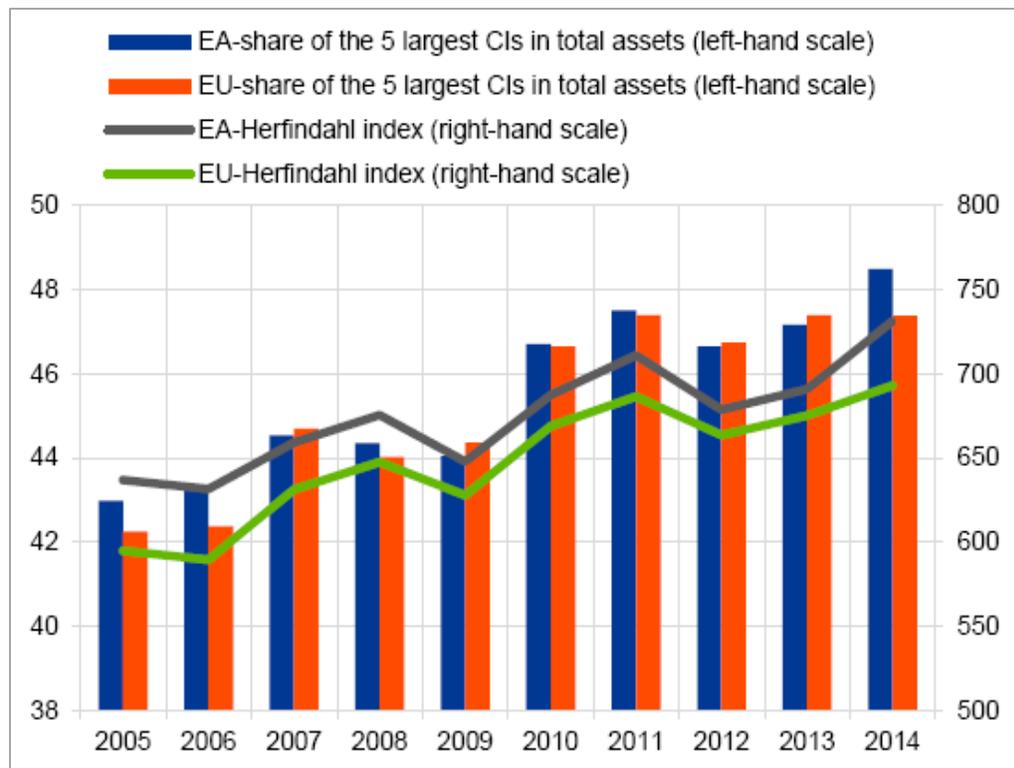
Non-performing loan ratios of significant banking groups in the euro area



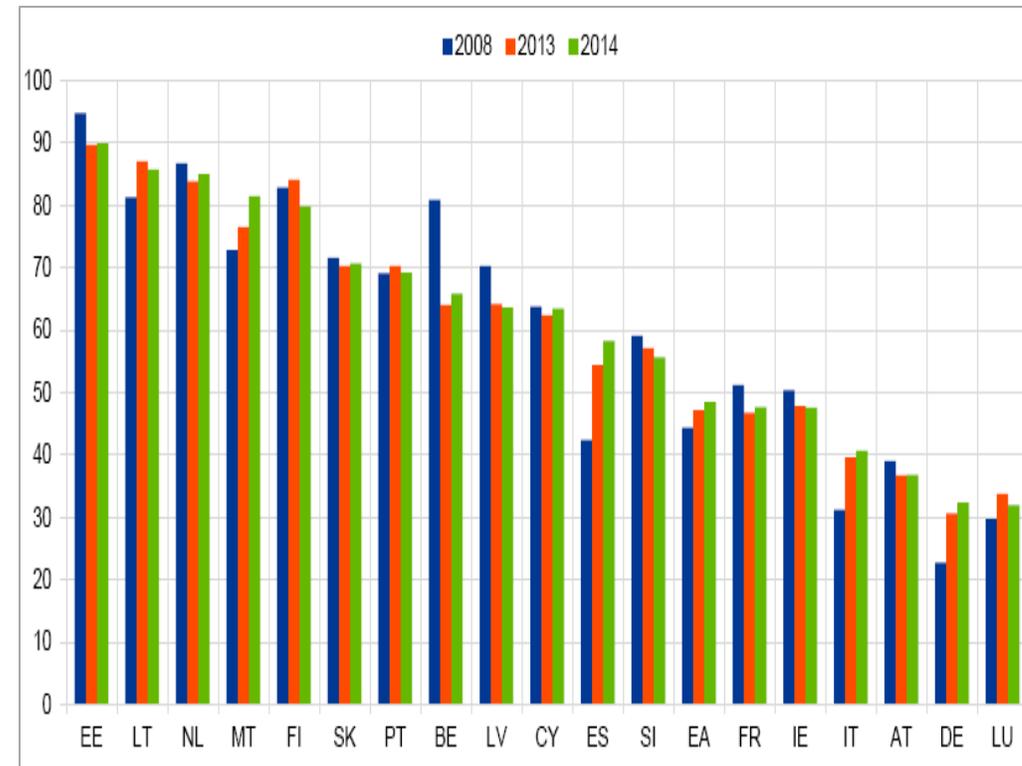
(Q4 2014 – Q4 2015; percentage of loans; median and interquartile range for SBGs) Notes: Euro area countries most affected by the financial crisis include Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain.

One of the structural impediments to profitability recovery is related to overcapacity in some parts of the EA. Market concentration increasing since the pre-crisis period.

Market concentration in the Euro area



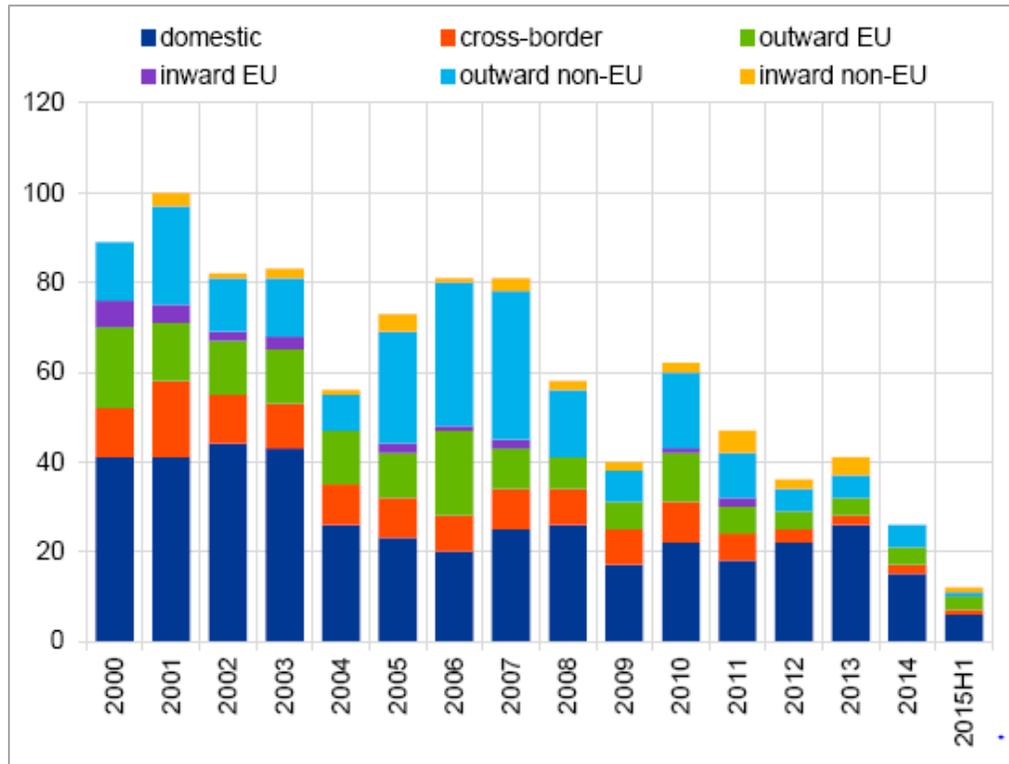
Share of the five largest credit institutions in total assets



EA M&A in banking:

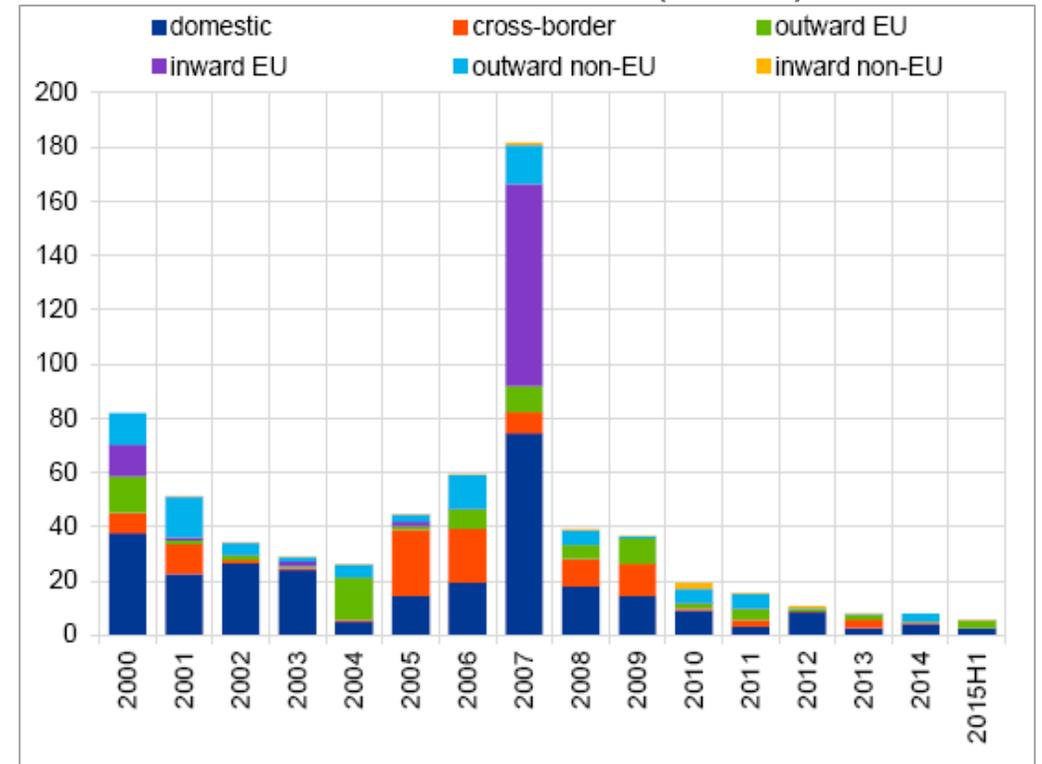
Since 2008, number of domestic transactions remained broadly unchanged until 2013, reflecting ongoing consolidation. Transaction value of M&As has decreased since 2007.

Bank M&As – number of transactions



Note: M&As include both controlling and minority stakes. The value of some of the transactions is not reported. "Cross-border" M&As refer to intra-euro area transactions involving a non-domestic acquirer. "Inward" refers to M&As by non-EU or non-euro area EU banks in the euro area and "outward" indicates M&As carried out by euro area banks outside the euro area

Bank M&As – value of transactions (EURbn)



Note: M&As include both controlling and minority stakes. The value of some of the transactions is not reported. "Cross-border" M&As refer to intra-euro area transactions involving a non-domestic acquirer. "Inward" refers to M&As by non-EU or non-euro area EU banks in the euro area and "outward" indicates M&As carried out by euro area banks outside the euro area.

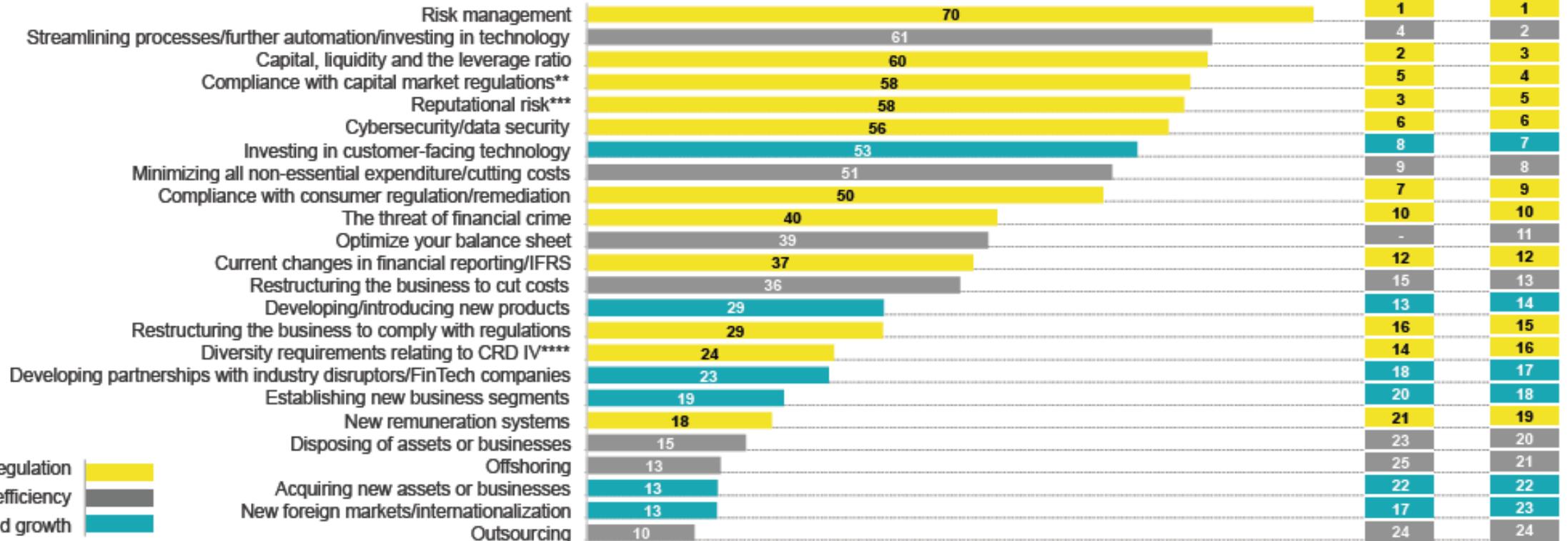
Despite a renewed focus on efficiency, risk management and regulatory compliance will continue to lead the banking agenda.

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

Rank order of importance

2015 2016

2016

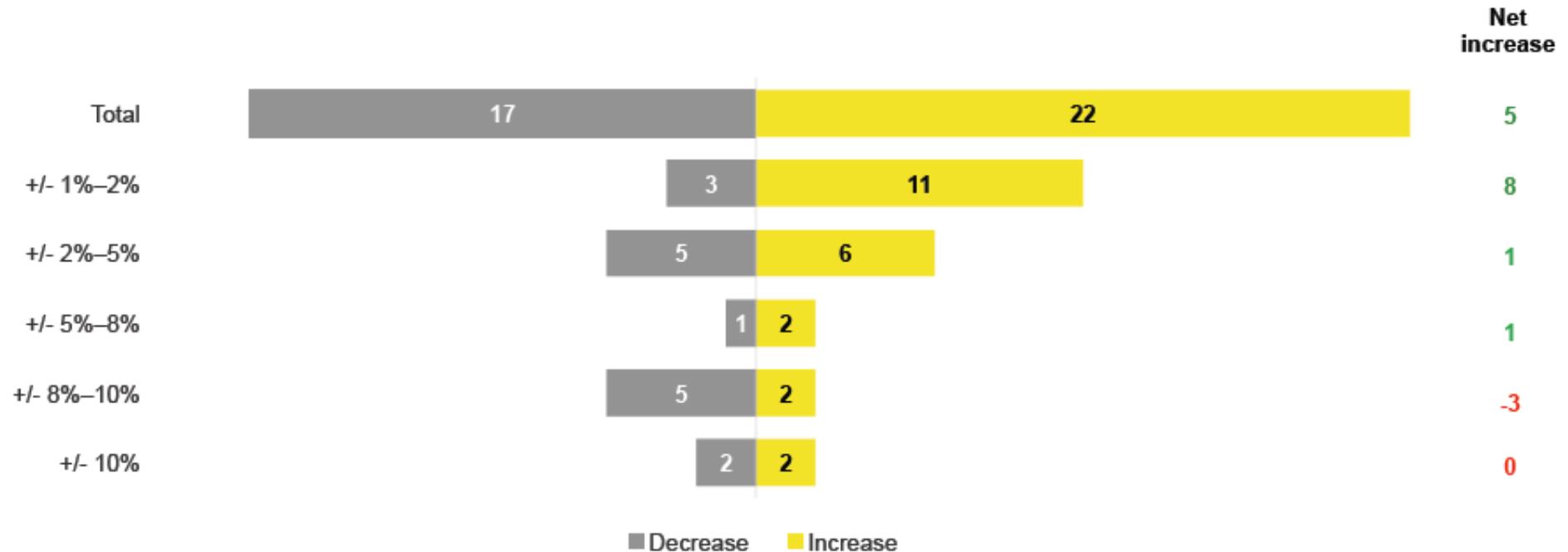


Risk and regulation 
 Cost cutting and efficiency 
 Innovation and growth 

International standard setters have established compensation guidelines specifically for

Fls. 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)?*



Base excludes respondents answering "Don't know."

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

The likes of McKinsey and Accenture have opined that 35–40% of banking revenues are under threat from fintechs.

