



Capital gain, asset loss
European bank deleveraging



Margaret Doyle
Head of Financial Services Insight, Deloitte UK

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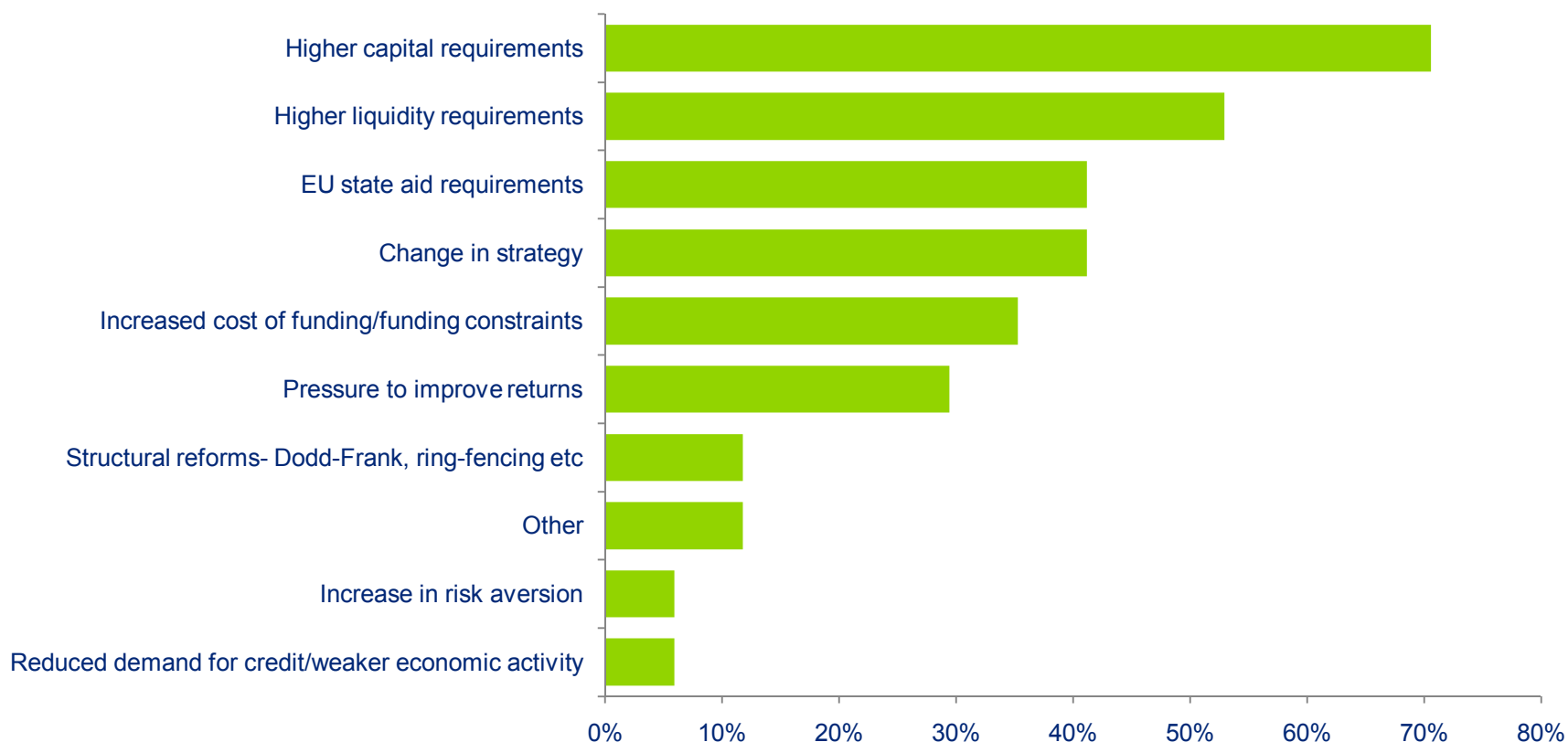
The Deloitte Bank Survey: executive summary

- **Higher capital requirements** are the key driver of bank deleveraging
- Liquidity constraints are also a significant cause of deleveraging
- Deleveraging is expected to yield a neutral/positive impact on capital ratios
- Banks expect deleveraging to be **modest** relative to past crises and to the credit boom
- Banks expect **to re-size through run-offs** more than through divestments
- **A slow burn** – deleveraging expected to take at least five further years
- High proportion of divestitures expected to be assets in Western Europe
- Banks' models are changing – many banks have divested non-bank business lines
- Pricing disconnect between banks and potential buyers
- Private equity firms and non-European banks seen as the likeliest buyers

Higher regulatory capital is driving European deleveraging

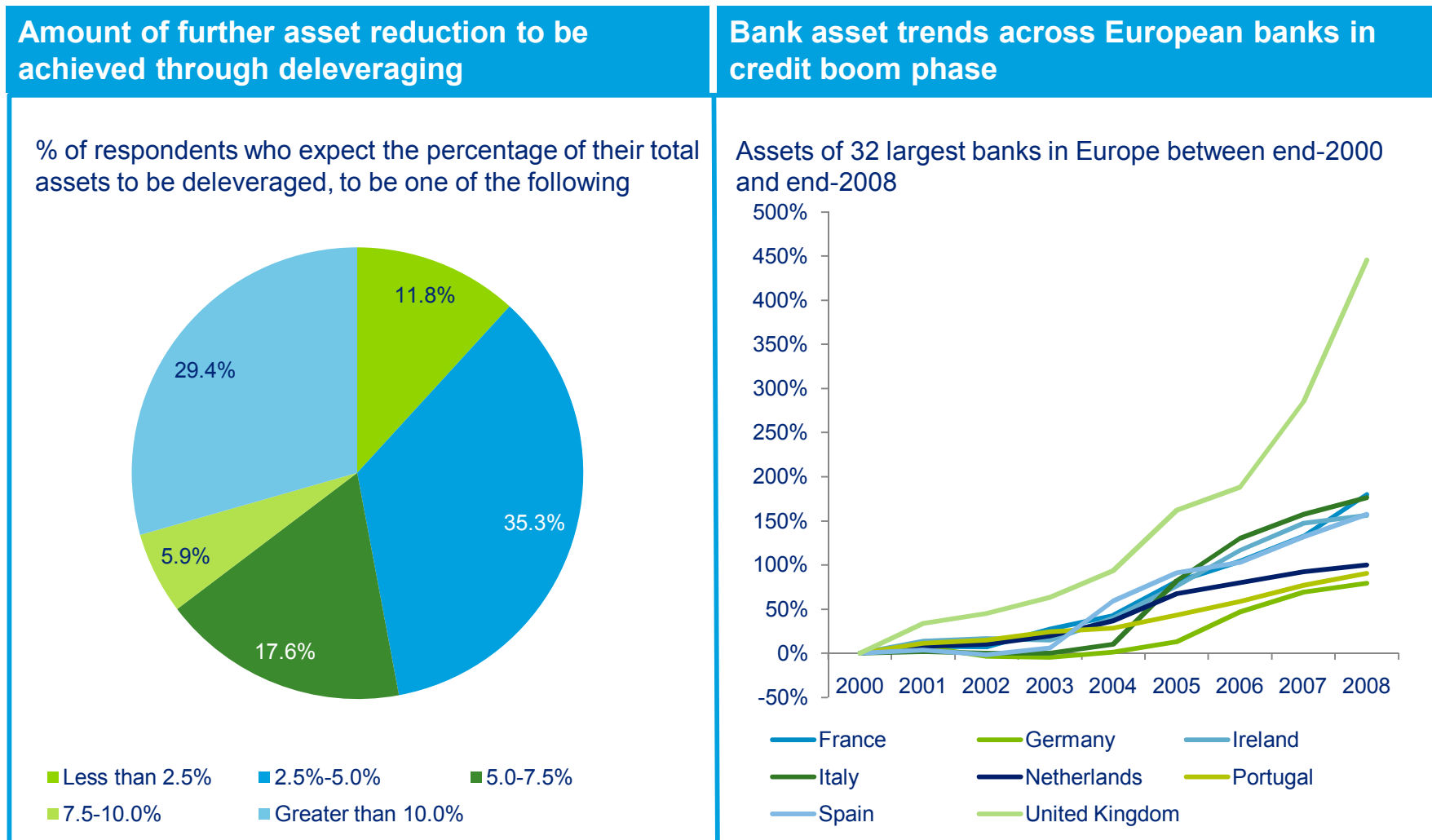
Deleveraging drivers

% of respondents who rated each of the following drivers 4 or 5 (on a scale of 1-5, 5 = extremely important) for their bank's deleveraging plans



Source: The Deloitte Bank Survey 2012, Deloitte analysis

The scale of expected deleveraging is modest relative to the preceding credit boom, which saw assets at large UK banks quintuple...

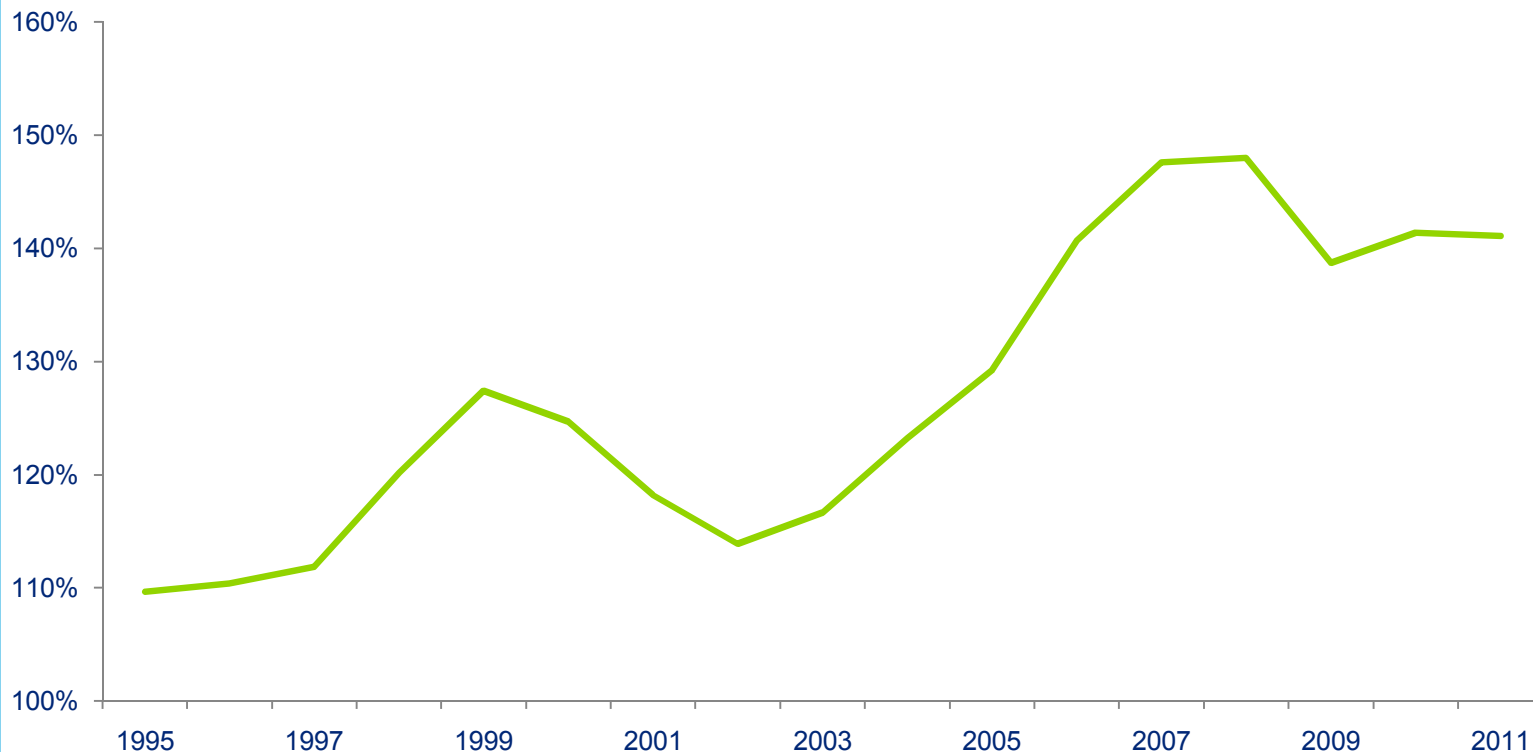


Source: The Deloitte Bank Survey 2012, Deloitte analysis

..and loan-to-deposit ratios at large banks across Europe increase by a third between 1996 and 2008

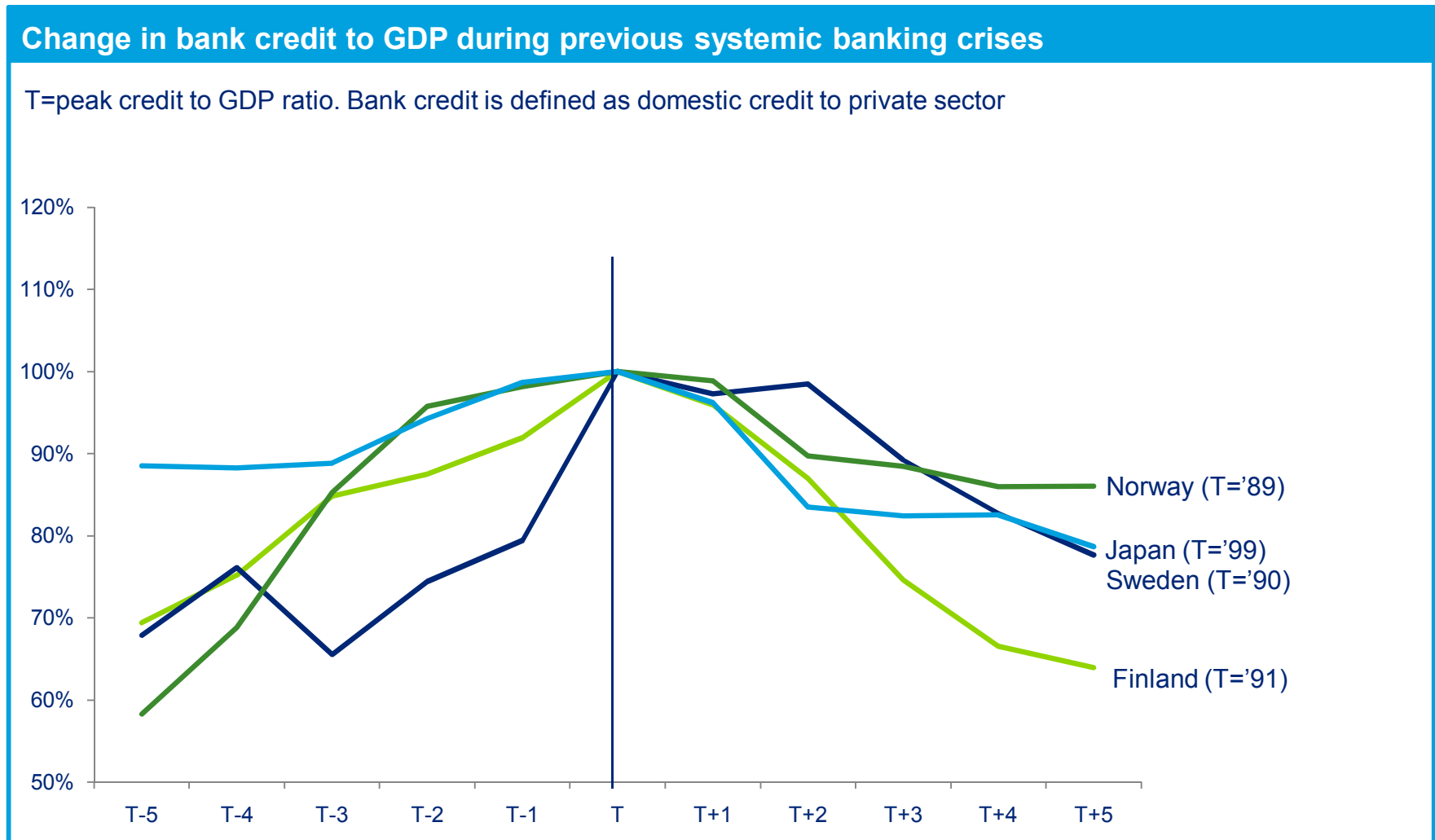
Average loan-to-deposit ratio for large banks in Europe, 1996-2011

Based on 13 large banks in France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain and the UK



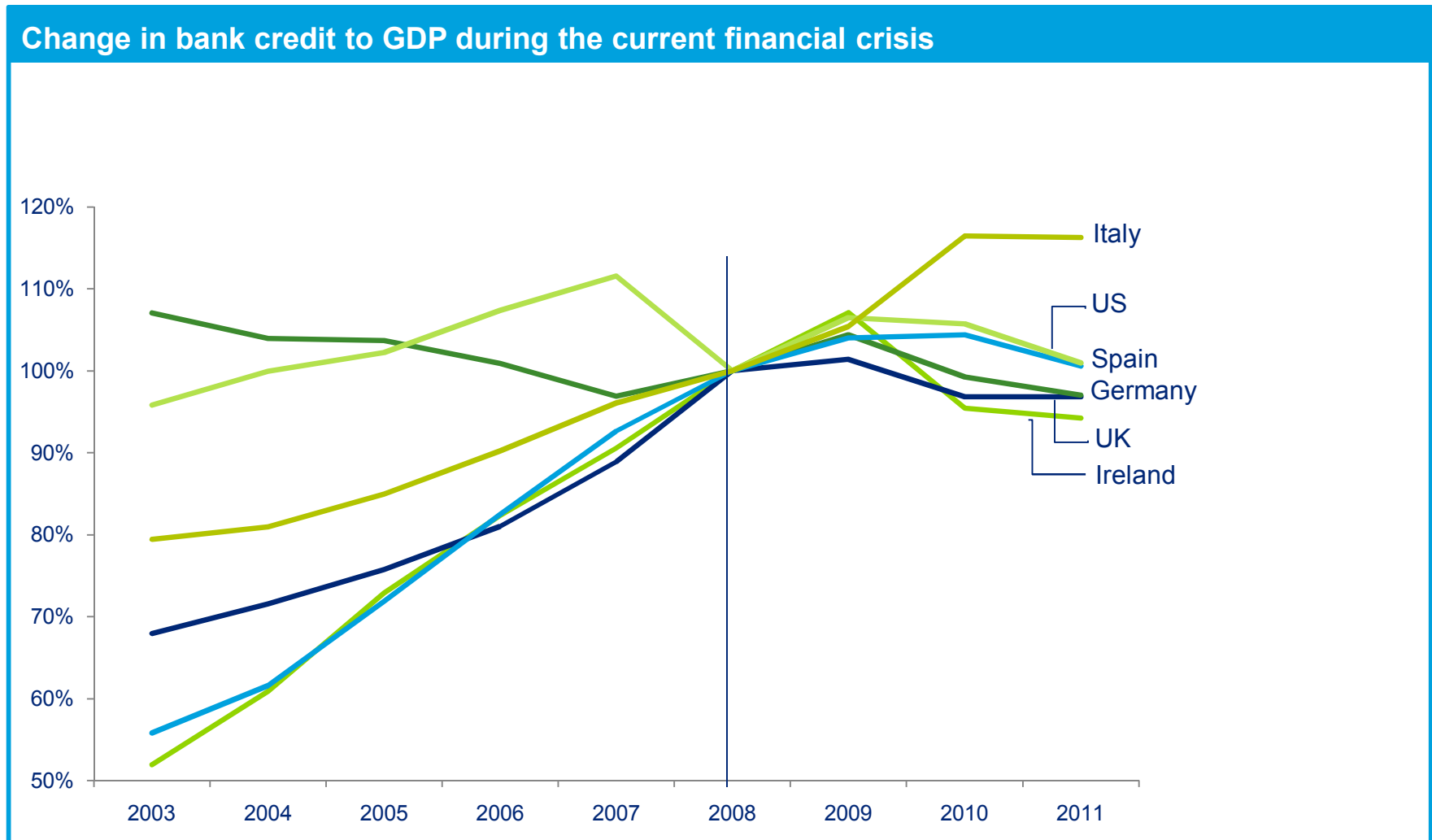
Source: Bloomberg, Financial statements, Deloitte Insight

Deleveraging is also modest vs the correction after previous crises, where bank credit-to-GDP fell 27%, on average, to pre-crisis levels



Source: IMF, Deloitte Insight

By contrast, the overall adjustment process for European banks has barely begun

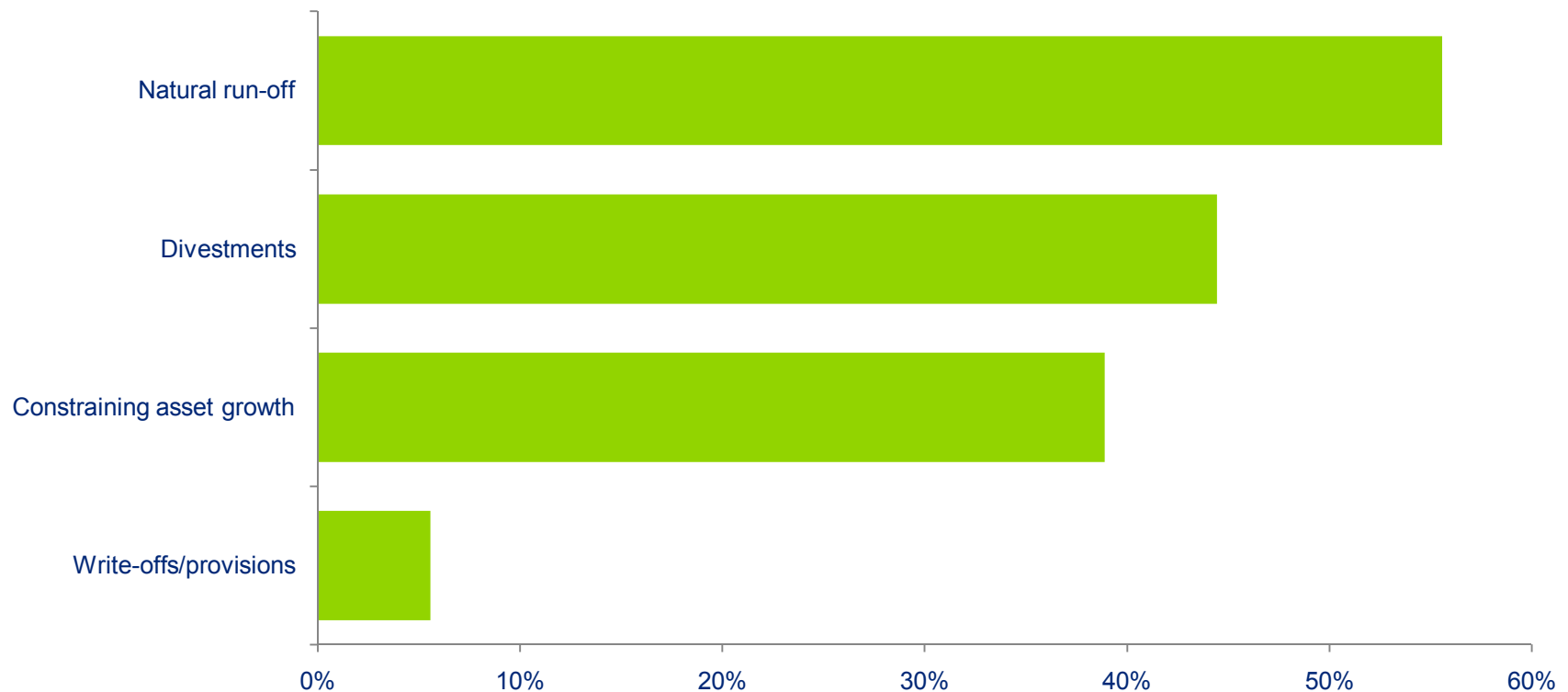


Source: IMF, Deloitte Insight

The Deloitte Bank Survey found that banks expect to re-size through natural run-off more than through divestments

How deleveraging will be achieved

% of respondents who rated each of the following processes 4 or 5 (on a scale of 1-5, 5 = very material contribution) in deleveraging

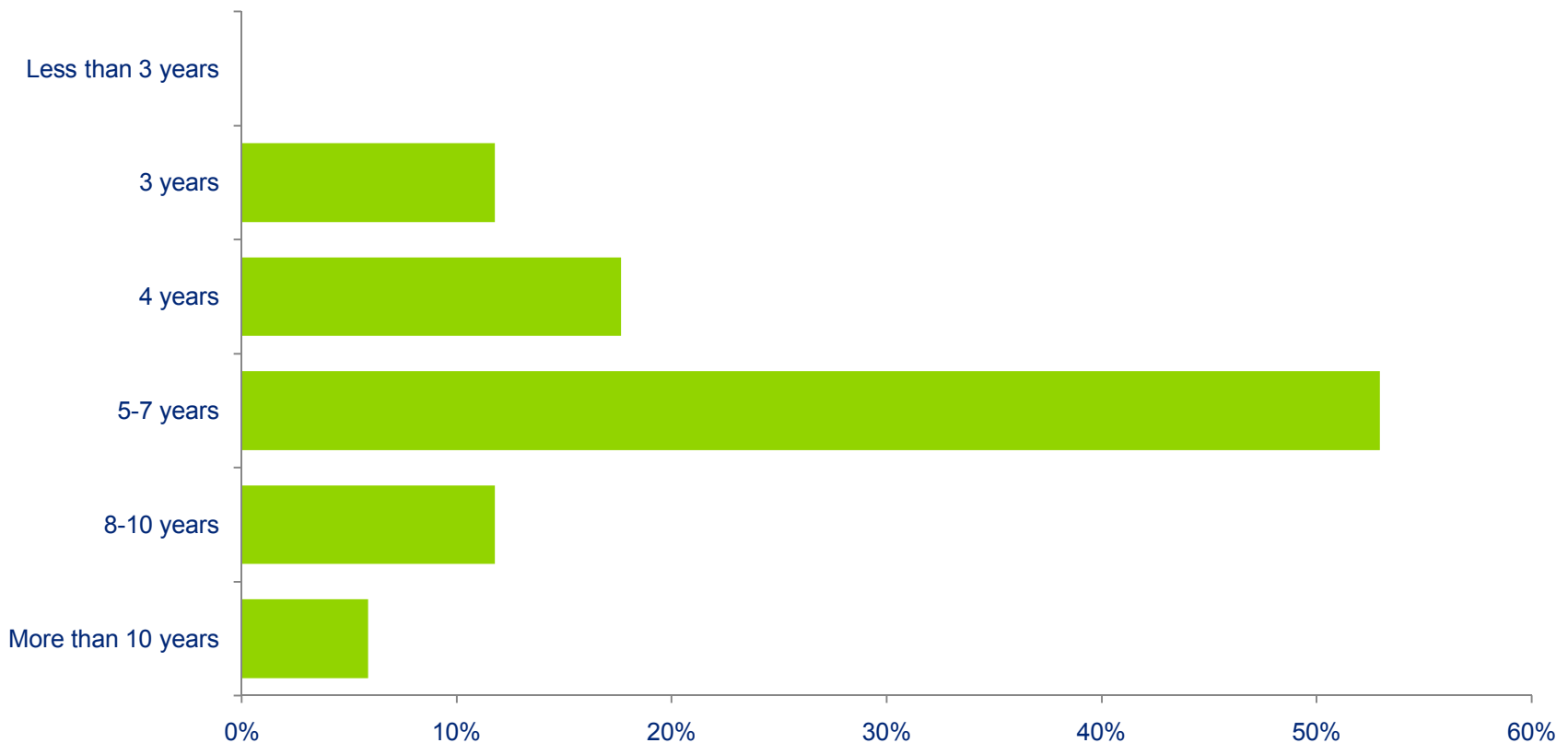


Source: The Deloitte Bank Survey 2012, Deloitte analysis

European deleveraging will be a slow burn – over two-thirds of respondents expect it to take at least five more years

Deleveraging time frame for European banking sector

% of respondents who expect the timeframe for European bank deleveraging, to be one of the following



Source: The Deloitte Bank Survey 2012, Deloitte analysis

Deloitte.