

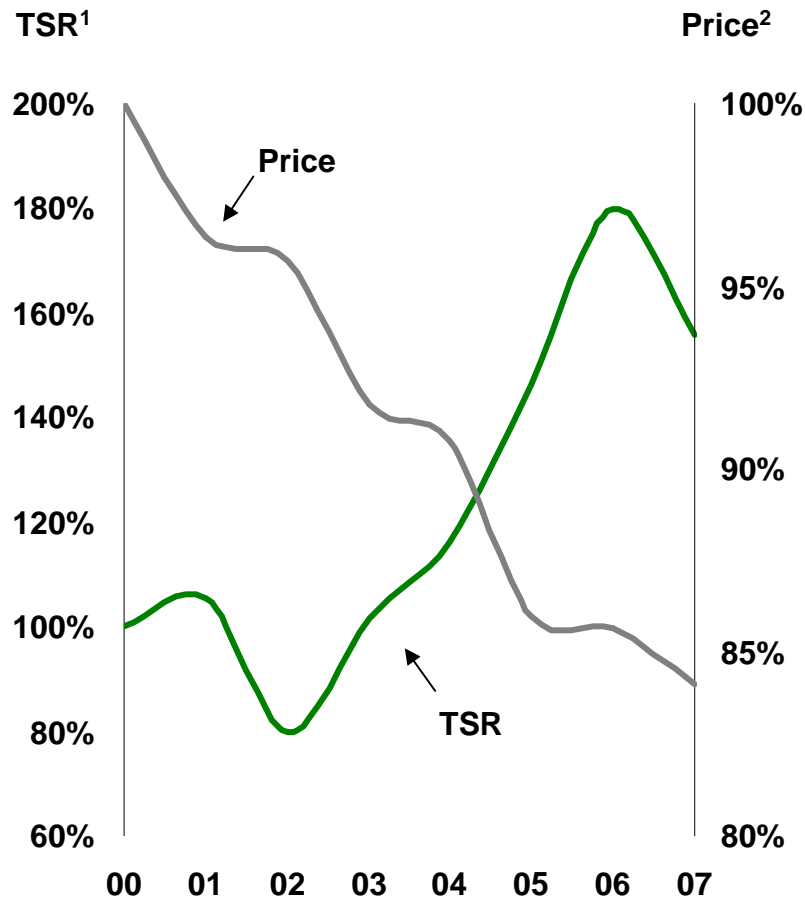
BBA Annual Banking Conference

The future of retail banking in Europe

10th June 2008

Eric Daniels

European retail banking landscape: Significant value created for customers and shareholders, 2000 – 2007



- **Customer value created by new benefits and lower prices:**
 - More product features, e.g., from current accounts to Added Value Accounts
 - More ways for customers to interact with bank, e.g. internet banking

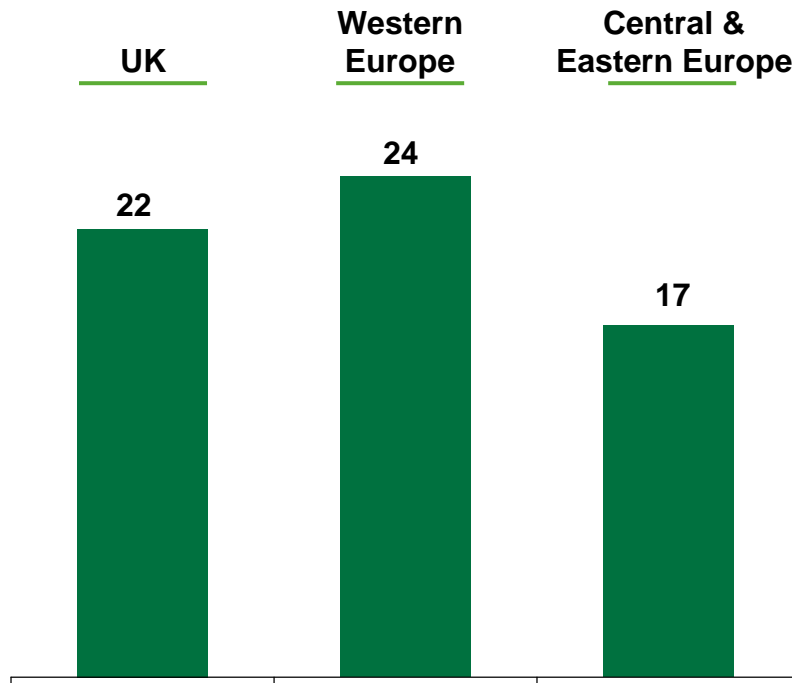
1 - Euro banks is DJS Banks Index; Total Shareholder Return (TSR) indexed to 100%; Source: Bloomberg

2 - Price (fees and net interest margins) for retail banking (including insurance and pension distribution) in Europe indexed to 100%; Source: McKinsey

European retail banking landscape: Diverse, competitive and a major driver of global banking growth

Best & worst performers

Difference in returns between top and bottom quartiles (%)¹



- **European retail (including wealth) is c.20% of global banking revenues²**

- **Aggressive pre-dislocation expectations:²**

- **European retail to contribute c.15% of growth in global banking revenues to 2015**
- **c.60% of European retail banking growth to come from lending**

1. ROEs for retail & commercial banks; Source: Lloyds TSB analysis

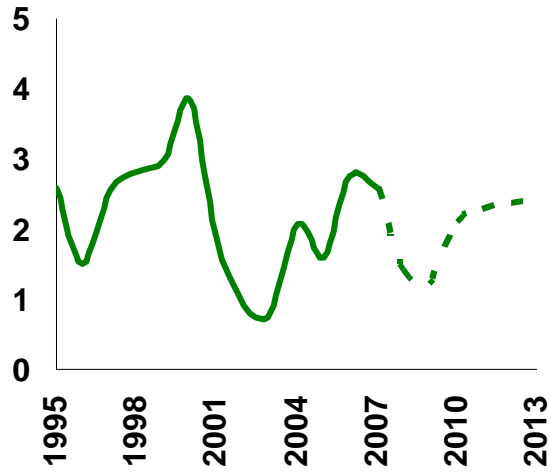
2. Source: Boston Consulting Group

Will European retail banking continue to create value for customers and shareholders?

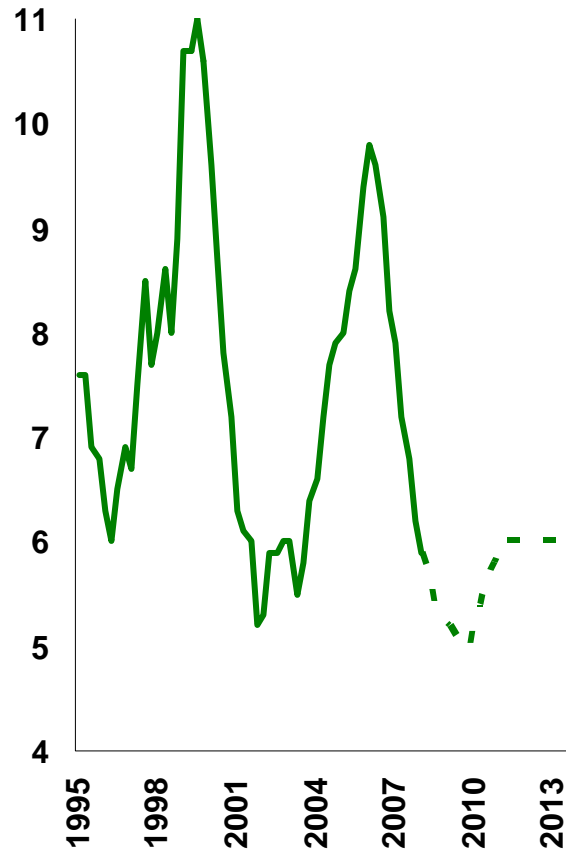
- 1) Long-term availability and price of liquidity**
- 2) European regulation: principles and approach**
- 3) Cross border consolidation**
- 4) Evolution of monolines**
- 5) Relevance of branch based banking**

1. Lower liquidity will reduce growth in lending to below pre-dislocation expectations

European annual GDP growth (%)¹

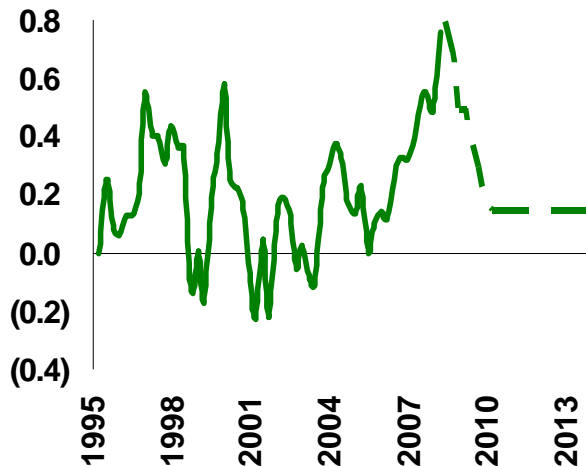


Change in household loans (%)²



- Lower growth in retail credit market demand than in 2000 - 2007
- Lower growth in wholesale funded retail competitors

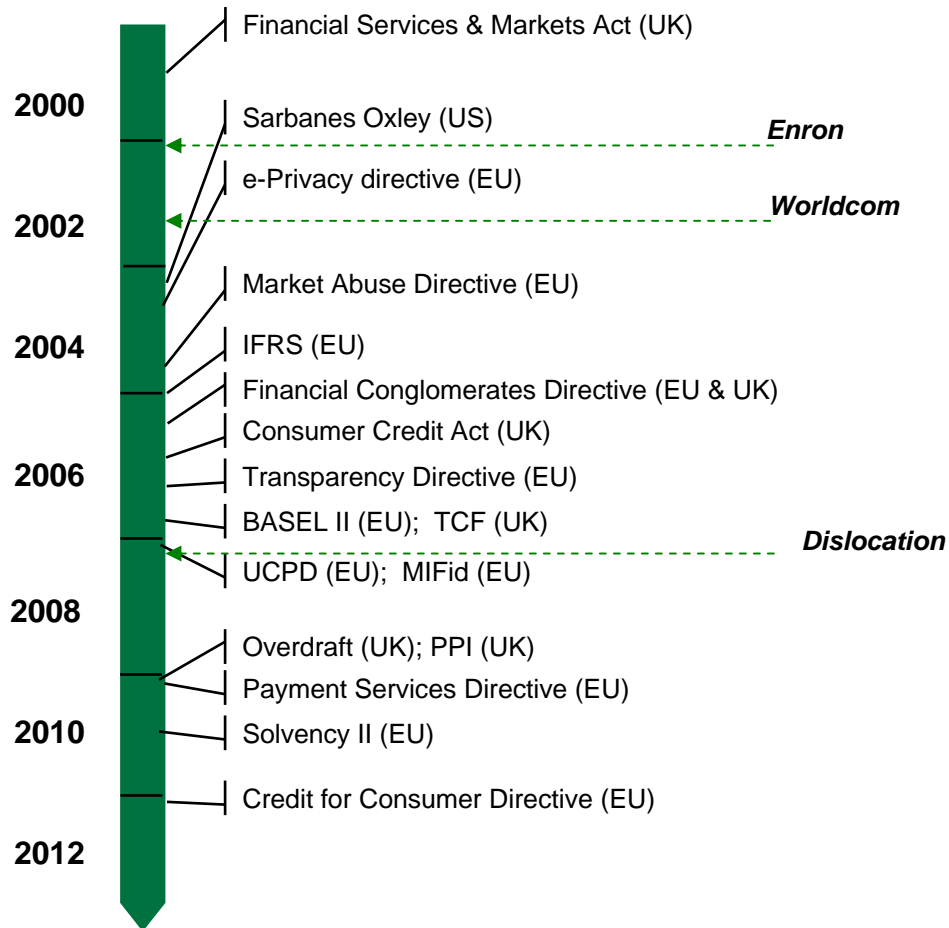
LIBOR above base (%)²



1: Source – IMF

2: Source – Historic 1995 – 2007: Datamonitor; ECB. Forecast 2008 – 2013: LTSB Estimates

2. Regulation could adversely affect customer and shareholder value



- **Customer and shareholder value dependent on:**
 - Removal of specific barriers to entry
 - Liberal rather than a protectionist – agenda
- **Measured reaction to dislocation**

3. Cross border consolidation will continue at a measured pace

7 of Europe's top 20 in 1997 acquired by 2007¹

No transformational transaction

HSBC 

 BARCLAYS

ING 

Deutsche Bank 

Standard Chartered 

COMMERZBANK 

 SOCIETE GENERALE

In-market transformational transaction

 Lloyds TSB

 Union Bank of Switzerland

 BNP

Cross-border transformational transaction

CREDIT SUISSE 

 BBV
BANCO BILBAO VIZCAYA

 Santander

Acquired

In-market

 NatWest

 SBC

 Dresdner Bank
Die Beraterbank

Cross-border

 ABN-AMRO

 ABBEY NATIONAL

 BAYERISCHE VEREINSBANK

 HYPOBANK
Bayerische Hypothek- und Wechsel-Bank
Aktiengesellschaft

1. Top 20 by market cap, 1.1.1997

4. New monolines will emerge, but with limited impact

Standalone specialist

- Standalone specialists will continue to emerge, differentiating on costs, proposition or capabilities
- But specialists will remain niche, because full service banks:
 - Meet customers' varied needs
 - Have a material funding advantage
 - Are able to acquire monolines or their innovations

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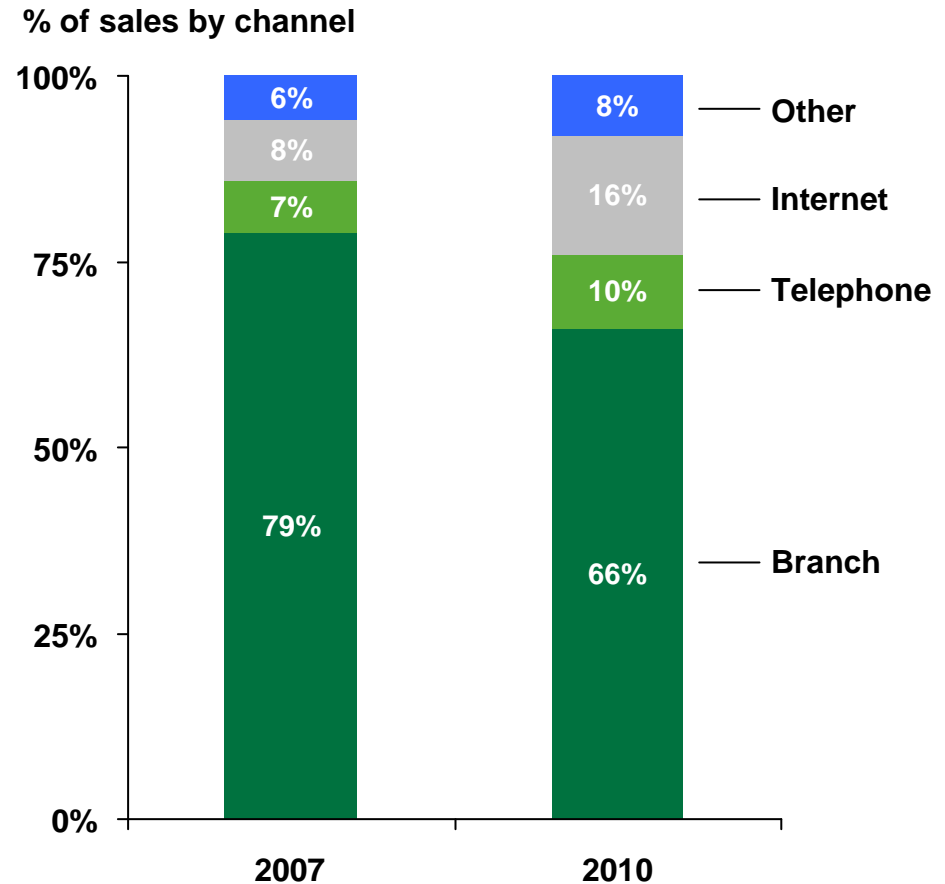
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Traditional Banks

- Setting up a monoline enables existing players to:
 - Enter a new customer, geographic market
 - Test new ideas

5. Branch-based banking will continue to be valued by customers

- **Distribution improvement expected to be key driver of growth¹**
- **Branch strategies will differ increasingly *within* countries, i.e. industrialised vs. customised branches**
- ***De novo* banking will be selective given Europe's high concentration of branches vs. US**



1. Survey of senior retail executives, Capgemini, 2007

2. Source: Finalta

Will European retail banking continue to create value for customers and shareholders?

Higher uncertainty now

- ✓ **Price liquidity and credit appropriately**
- ✓ **Innovate for customers**
- ✓ **Deliver good products and service**
- ✓ **Manage distribution effectively**
- ✓ **Efficiency**

Good strategy and brilliant execution are essential