Deutsche Bank Research

June 15, 2009

Global banking trends after the crisis

The near-term prospects for US and European banks are decidedly grim. The global financial crisis will bring about the most significant changes to their operating framework banks have seen in decades. There will be fundamental re-regulation of the industry, ownership structures are shifting towards heavier state involvement and investor scrutiny is rising strongly. Equity ratios will be substantially higher. As a result, growth and profitability of the banking sector as a whole are likely to decline.

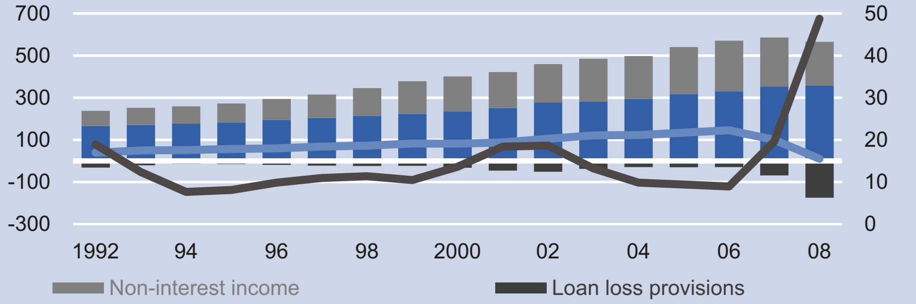
Lean years lie ahead for US banks. Performance improvements during the last 15 years have often been due to strong lending growth and low credit losses. As private households reduce their indebtedness, revenue growth in some European countries but especially the US may remain depressed for several years. With weak loan growth and a return of higher loan losses as well as a fundamentally diminished importance of trading income and modern capital-market activities such as securitisation, banks may be lacking major growth drivers.

Consolidation to continue but with a different focus. While there will still be a considerable number of deals, transaction volumes are likely to decline and restructuring stories rather than strategic M&A may dominate. The probability of domestic deals has increased, while that of cross-border mergers has declined.

Internationalisation of European banks likely to slow. Uncertainty about the future prospects especially of foreign markets and strictly national banking sector stabilisation programmes are triggering a re-orientation towards domestic markets. This is more relevant for European banks that have greatly expanded into other European countries recently, while American banks overall may continue to target the national market rather than going abroad.

P&L developments at US banks

USD bn, provisions in % of net interest income



Sources: FDIC, DB Research

Author
Jan Schildbach
+49 69 910-31717
jan.schildbach@db.com

Editor
Bernhard Speyer

Technical Assistant
Sabine Kaiser

Deutsche Bank Research
Frankfurt am Main
Germany
Internet:www.dbresearch.com
E-mail marketing.dbr@db.com
Fax: +49 69 910-31877

Managing Director
Norbert Walter