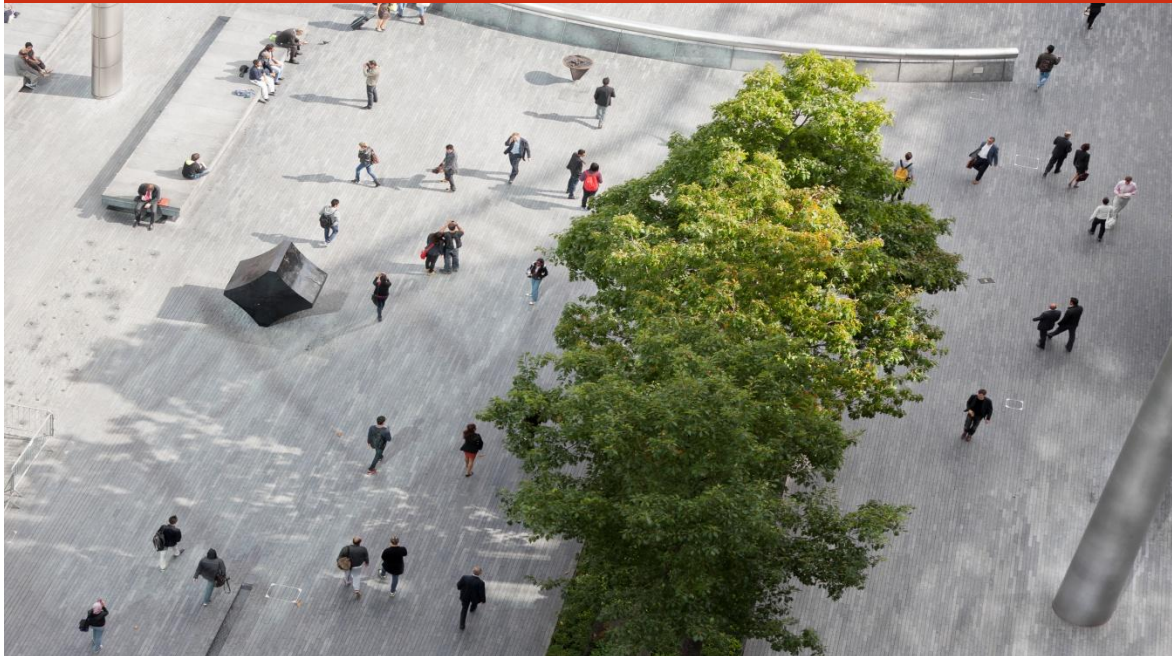


Dealing with disruption: 16th Annual Global CEO Survey

Key findings in the Banking and Capital Markets industry

January 2013



Welcome

Far-reaching changes are taking place, and they're taking place faster than ever. In this new era of 'stable instability', risks that once seemed improbable and even remote have become the norm and for CEOs across the world, 'expect the unexpected' has become the mantra. The only solution is to build organisations that can thrive amidst disorder: organisations that are agile and adaptable, able to cope with disruption and emerge stronger than before.

We polled 1,330 CEOs in 68 countries, and talked face-to-face with another 33 CEOs, in our 16th Annual Global CEO Survey, to find out how they're creating resilient organisations that can flourish under stress. *Dealing with disruption* shows that CEOs are focusing on a few carefully selected initiatives to stimulate organic growth; exploring new ways to attract and keep customers; and balancing efficiency with agility. And to succeed in these three goals, CEOs are recognising the role that trust plays, and that they'll have to work hard to repair the bridges between business and society.

This report is a summary of our key findings in the Banking and Capital Markets (BCM) sector, based on survey responses from 149 industry leaders in 49 countries, along with in-depth interviews with CEOs from Axis Bank Limited, China Merchants Bank Co. Ltd, Commerzbank AG, Grupo Supervielle, Industrivärden AB, OTP Bank Nyrt and Promsvyazbank. To see the full results of the 16th Annual Global Survey, please visit www.pwc.com/ceosurvey.

Introduction

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Banking and Capital Markets CEOs are upbeat about their growth prospects. But they recognise that success will be hard won.

With limited funds for acquisition and new market development, the key focus is going to be organic growth in domestic markets. That demands a closer focus on evolving customer expectations and renewed efforts to strengthen operational effectiveness.

At a time when customer trust is strained, many Banking and Capital Markets businesses are also focusing on how to re-engage with customers and reinvigorate their ‘social mandate’.

Let’s see how.

Upbeat about prospects

45%

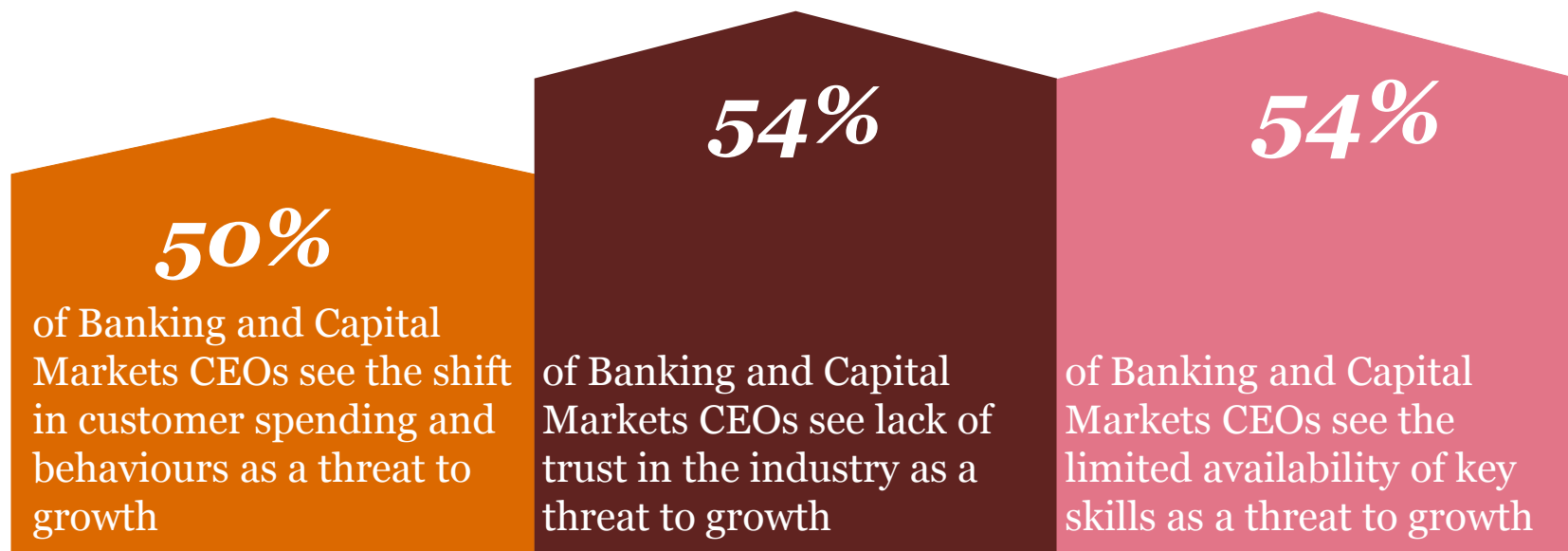
of Banking and Capital Markets CEOs
are very confident about their ability to
raise revenues over the next 12 months.
A further 42% are somewhat confident.

What worries CEOs the most?

“We believe that one challenge for our organisation, and for banking in Europe, is the stability of the Eurozone and the development of the currency. A second challenge is regulation. Regulation will put significant pressure on banks and their profitability. And the third is the way in which customer behaviour and customer demand is changing. Customers have lost significant trust in the banking system, and they are also changing their behaviour in the way they interact with banks: there is less branch usage, but much more internet and online usage and we have to adapt to that.”

**Martin Blessing, Chairman of the
Board of Managing Directors,
Commerzbank AG,**

Threats to growth are looming



The economy remains a concern

“As the economic growth rate in China slows, the demand for banking credit is sure to decline as well.”

Dr. Weihua Ma, President and Chief Executive Officer of China Merchants Bank Co. Ltd

Banking and Capital Markets CEOs are very concerned about a wide range of threats to growth. Economic growth, regulation and capital market stability top the list. Those are all factors mostly out of CEOs' control.

But sector CEOs aren't waiting for governments to act. They're working on making their own businesses more resilient and seeking out pockets of opportunity.



Battling for market share

Most Banking and Capital Markets CEOs are primarily targeting organic growth in their existing markets, domestic or foreign. A significant proportion is also looking ahead to new product and service development. Far fewer plan to enter new markets or embark on acquisitions or alliances as their main source of growth.

So what are CEOs doing?

Countries targeted for growth

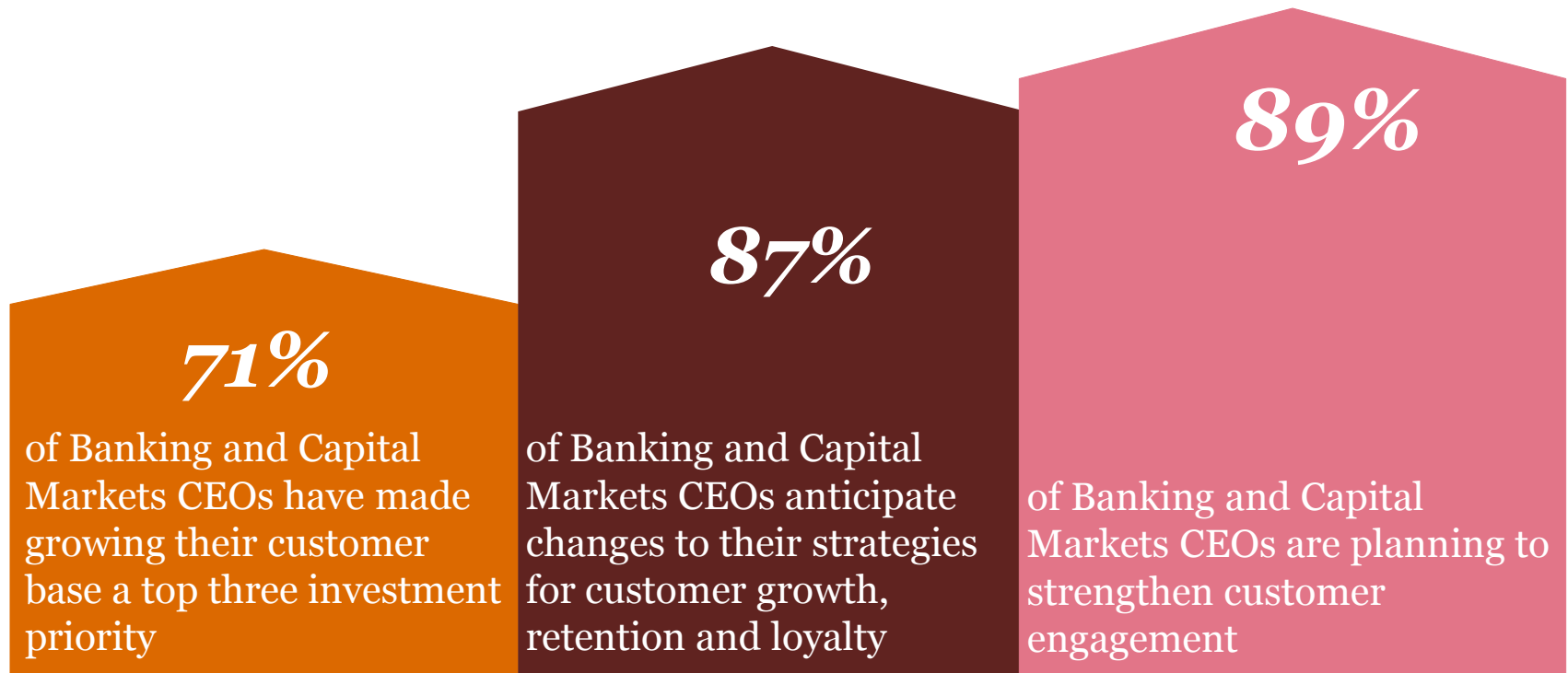
China and the US top the list of markets seen as most important to overall growth prospects, though Banking and Capital Markets CEOs see recession in the US and a dip in China's growth below 7.5% as among the most likely and most threatening macroeconomic scenarios.

Concentrating on the customer

“Clearly, the most important stakeholders are our clients because, quite simply, without them we would be out of business.”

**Sándor Csányi, CEO and Chairman of
OTP Bank Nyrt., Hungary**

Getting closer to customers



Technology is reshaping the market

- 74% of Banking and Capital Markets CEOs are planning to increase investment in technology
- 65% of Banking and Capital Markets CEOs are planning to increase R&D and innovation capacity

Big data analysis offers significant opportunities to sharpen customer understanding and targeting. It could also open the door to social media, telecoms firms and other new competitors. But only 29% of Banking and Capital Markets CEOs are concerned about the threat from new entrants.

Looking at regulation in the round

- 81% of Banking and Capital Markets CEOs see over-regulation as a threat to growth, a consistent theme over the years

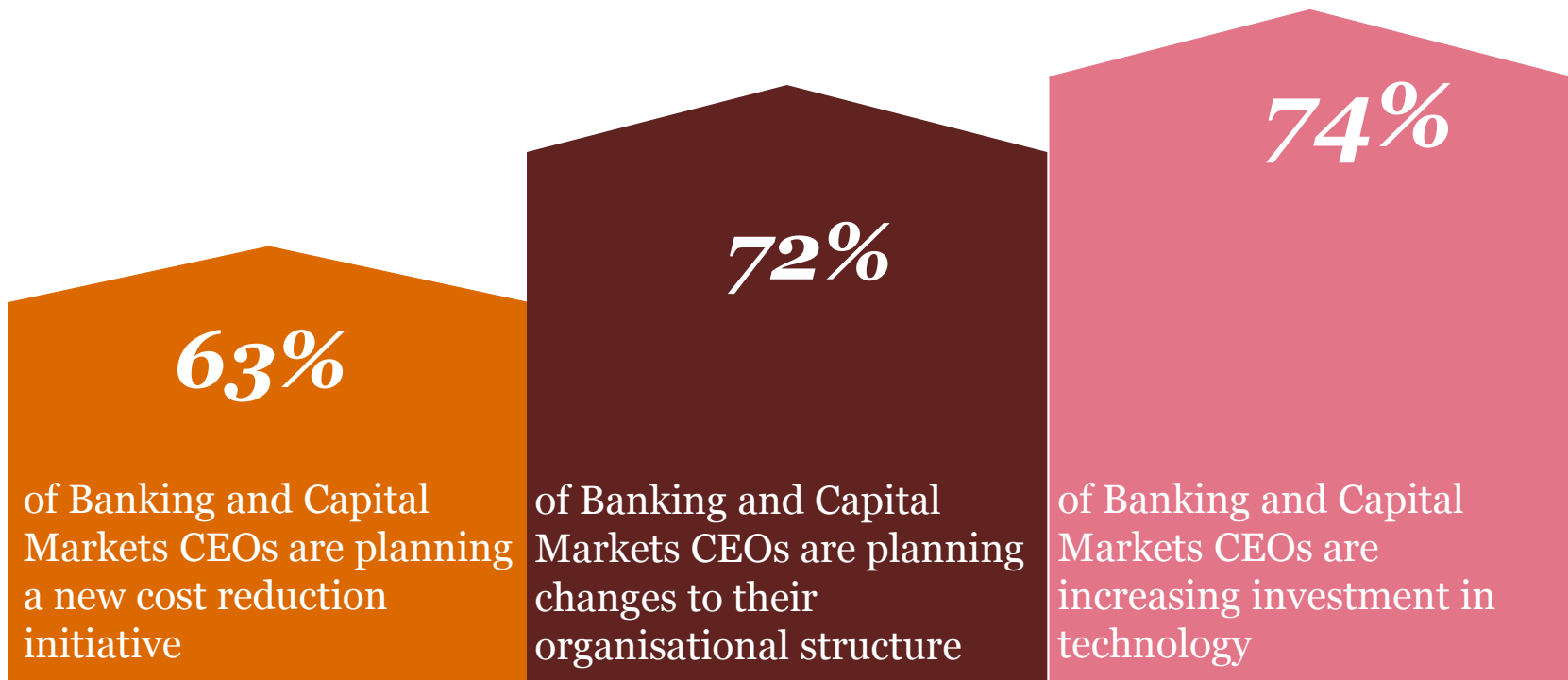
But upheaval is part of the new normal. Smart firms are taking a comprehensive approach to expected changes rather than tackling each new regulation in isolation and developing strategy to respond to the long-term impact on returns and capital requirements.

Improving operational effectiveness

58%

of Banking and Capital Markets CEOs
have made investing in improving
operational effectiveness a top three
priority

CEOs are changing how they manage their organisations



Contributing to economic development

“The bank is a business, but we also feel responsible for contributing to the country’s economic development. We have a business, but if we do not comply with the objective of being agents of economic progress through offering credit, we are not fulfilling our fundamental role of distributing the savings in the economy.”

Patricio Supervielle, Grupo Supervielle’s CEO and Banco Supervielle’s Chairman, Argentina

Getting leaner at Industrivärden AB

“Given that the global economy and the global pace of life are getting faster in all aspects, one needs to become more agile and efficient about everything – including running a company. It’s essential that you streamline operations and become leaner wherever you can so as to be able to respond more quickly to changing market conditions.”

*Anders Nyren, President and
Chief Executive Officer,
Industrivärden, Sweden*

Marking out the winners from the losers

Banking is grappling with the severe stresses of a challenging economy, low interest rates, higher capital demands, technological developments, constraints on business (e.g. curbs on proprietary trading), non-core and non-performing assets and lower pay and hence less attractiveness to talent.

The organisations on the competitive front foot are:

- Exiting underperforming businesses and assets
- Simplifying operations and identifying opportunities for competitive advantage
- Looking at regulation in the round to manage cost and strategic impact more effectively
- Improving customer transparency while sharpening customer targeting and cross-sale opportunities
- Taking advantage of changing technologies to improve customer service, lower costs and increase speed to market

It's a question of trust

61%

of Banking and Capital Markets CEOs are increasing their focus on ways to support a culture of ethical behaviour

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Download the main report, access the results and explore the CEO interviews from our 16th Annual Global CEO Survey online at **www.pwc.com/ceosurvey**.

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