



East predicts an unexciting year in business banking...

(2 March 2012 – Australia) As 2012 well and truly gets underway, and the uncertainties that the New Year is bringing are beginning to crystallise into a starkly similar climate to the Global Financial Crisis (GFC). East & Partners has today launched its Outlook 2012 for the coming year and its big themes consisting of:

Key East & Partners' predictions for 2012:

- Smaller businesses will largely dominate deposit volumes, delivering the fastest growing source of funding for those banks and ADIs that can connect and leverage relationships with this segment
- Middle market businesses will continue to concentrate their wallet share with their primary lender for debt products to achieve greater loyalty and buying power
- On the flipside smaller businesses will continue displaying a lack of appetite for borrowing due to a lack of confidence about short term futures and the terms of debt funding they are being offered by lenders
- Access to funding and domestic deposits will dominate bank behaviour during the year, alongside the need for effective management of new capital adequacy requirements
- Very close attention to margin management will drive continued cost reduction behaviour especially those focussed on people and technology
- The Big Fours' market dominance will continue to control lending rates rather than the Official Cash Rate and their revenue growth will concentrate on sustainable fee income and product cross sales
- International banks with any balance sheet at all will perform strongly in the domestic Australian business markets
- Asia will continue to grow at a rapid pace, with the region out-pacing the Australian credit market three-fold
- Business customers will not churn unless pushed by their incumbent credit provider
- Disruptive new entrants to the market are likely in response to internationally attractive margins being achieved in the Australian domestic market but no real game-breakers on the horizon
- Regionals will be challenged by funding costs and capital adequacy changes
- Payments innovation will re-shape the utility side of commercial banking

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Paul Dowling, Principal Analyst, East & Partners, commented, “A further year of very careful behaviour by business customers, accompanied by an absolute focus on margins and profitability by the banks is in store for these markets. We will continue to see two, two-speed economies in evidence – resource versus non-resource business and big versus small customer behaviours differentiating themselves.”

“Clearly there is a new norm on us, characterised by slow to nil credit growth, deleveraged balance sheets (both home and business), depressed demand for additional banking product generally and customers still searching for meaningful relationships with their banks”, he added.

For further comments from East & Partners regarding any of 2012 Forecasts please contact Sian Dowling on +61 420 583 553 or sian.d@east.com.au