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CONFIDENTIAL

Quarterly Overview of Savings in Europe

January 2012

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1. Summary

For European savers, the second half of 2011 was marked by a financial environment more uncertain than ever, with growing differences in their economic situation. Financially, the sovereign debt crisis and falling stock prices of banks have spelled the "end of the risk-free assets", outside of German government debt. Real estate investments might have been seen as a last resort, if they did not depend on the capacity of banks to provide credit.

Following the analysis of the six countries studied - Germany, Spain, France, Italy, the United Kingdom and the newly added Belgium – one country was found to differ from the European average; Spanish household purchasing power declined and they are now in a state of "financial decumulation", that is to say that their savings withdrawals outweigh new investments. Moreover the sword of Damocles of housing assets borne by the balance sheets of banks portends a further decline of household wealth.

In this context, the structure of financial assets held by European savers altered in favour of banking products, both due to the "market effect" that devalues their existing market assets and to their behaviour, influenced by a heightened perception of risk in financial markets. Although the competitive pressure varies across countries, banks have almost everywhere (except Belgium) increased the return of savings and time deposits. In France, the tax-exempted Livret A has attracted an increasing share of savings, and taxable savings and time deposits have grown at quicker rate than previously seen.

Except in Italy and Belgium, the share of assets of Europeans invested directly in bonds is relatively small and the sovereign debt crisis has not aroused destabilizing reallocations. In Italy, the sales of bonds by private investors are relatively limited but national accounts record significant losses on the stocks that are held. In Belgium, in contrast to the institutionalization of the market in most European countries for the last twenty years, the State placed among its citizens nearly 6 billion euros in "Bons d'Etat" in a just a few days at the end of 2011.

In the third quarter of 2011, the fall of stock markets did not trigger significant equity sales by households, but opinion polls showed historical levels of distrust for this asset class in continental Europe. The UK savers seemed to be the least traumatized, most probably due to a market environment that has been much more resilient. Moreover, savings flows to investment funds declined throughout 2011 except in the UK. French management companies appear to be the most affected in Europe by this negative trend that touched all fund categories.

With the exception of Germany, long-term savings invested in life insurance or pension funds suffered a strong slowdown in net inflows, due to a drying up of contributions and increased benefits. Negative flows in French life insurance at the year-end were strong, however the same trend has been observed in the United Kingdom since 2009 in the life insurance and pension fund sectors. The closing to new members of defined benefit plans in Britain are far from being offset by subscriptions to defined benefit plans.