

European Banks Strategy

That was the credit cycle. Positive on banks

Industry Overview

De-risking worked

All those years of de-risking, stress testing and macroprudential rules were expensive for banks, in lost income and extra capital. But the results are clear: Exhibit 1 and Exhibit 2 use European Banking Authority data to show that there isn't really much of a bad debt cycle in the banks. Nor do we expect one, discussed in [Signs of the volume turn 26 January 2024](#) and [Peak nothing 01 September 2023](#) (report links). Contrasting 2023 with a decade ago, in Exhibit 3 and Exhibit 4 shows the flow of good loans to bad is as much as 90% lower. And Exhibit 5 highlights that already-bad loans are down three quarters.

Housing stress already in the rear view mirror

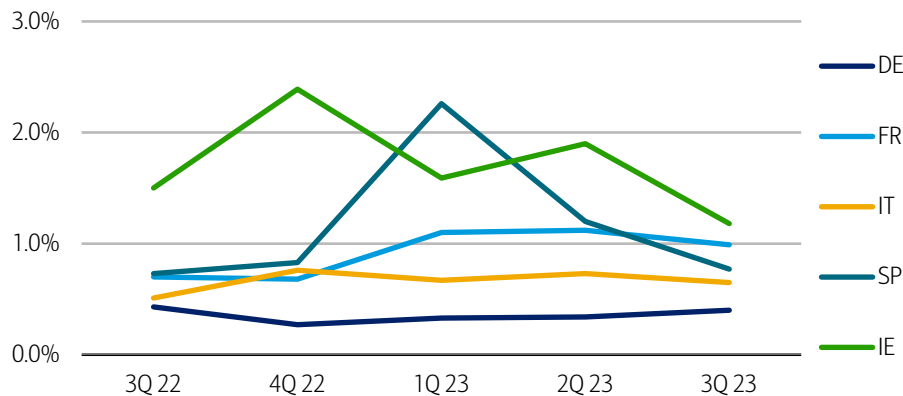
Strong loan quality is important for banks of course. But it's more than that. Banks are 95% of Europe's housing finance. All the de-risking excluded riskier borrowers from buying a property and ensured that those who did get a mortgage could absorb rate shocks. This makes a different housing market to cycles since the 1970s: much less stress. No distressed sellers, no distressed banks (see [four in a row ahead 05 January 2024](#), report link) means the impact of monetary tightening on housing is already in the rear view mirror. Home prices up in 2024 will contrast with central bank expectations of long tail weakness in housing (Exhibit 7) - and banks will lend into the demand.

Buy banks

European banks we cover are at 6.2x our 2025E profits offer an upcoming final dividend payout of 6%, a running yield of 8%, plus buybacks at 4%. More profitable and less cyclical than for many years, we reiterate our positive view.

Exhibit 1: There's just no increase in loan defaults

Default rate (%), trailing 12 months, major European markets. 50th percentile, corporate loan book



Source: BofA Global Research, EBA

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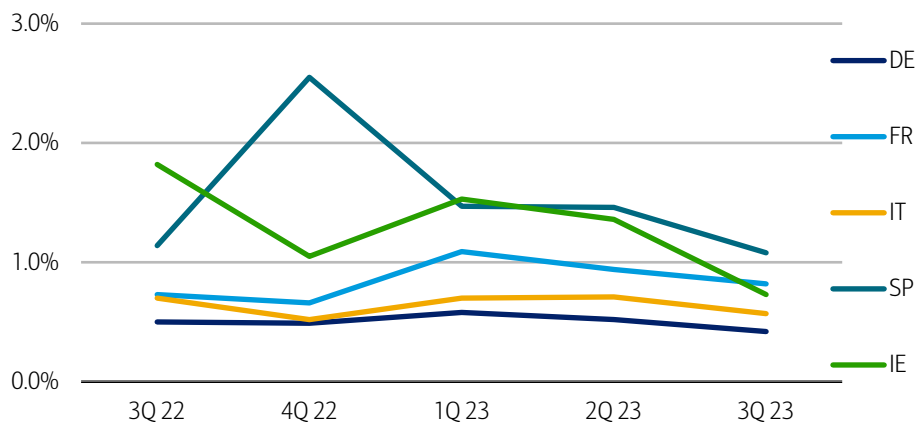
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Key charts

Exhibit 2: There's just no increase in loan defaults

Default rate (% , trailing 12 months), major European markets. 50th percentile, household mortgage book

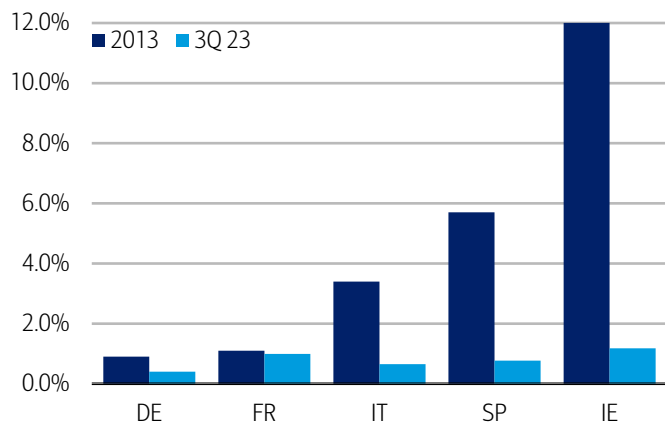


Source: BofA Global Research, EBA

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Exhibit 3: default rates in corporate down as much as 90% compared with a decade ago

Default rate (% , trailing 12 months), major European markets. 50th percentile, corporate loan book, 2013 and 12 months to 3Q 23

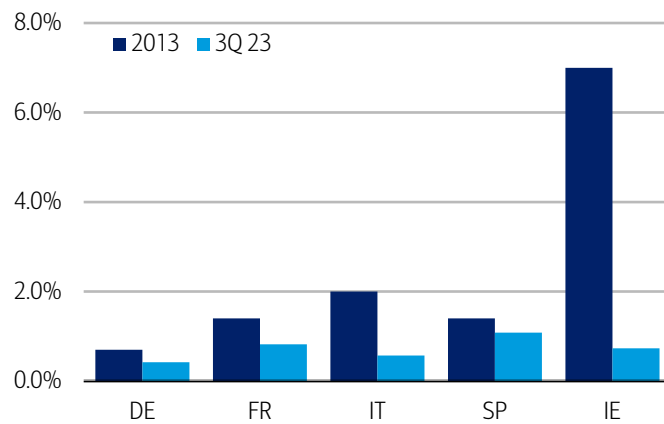


Source: BofA Global Research, EBA

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Exhibit 4: default rates in mortgages down as much as 90% compared with a decade ago

Default rate (% , trailing 12 months), major European markets. 50th percentile, mortgage book, 2013 and 12 months to 3Q 23

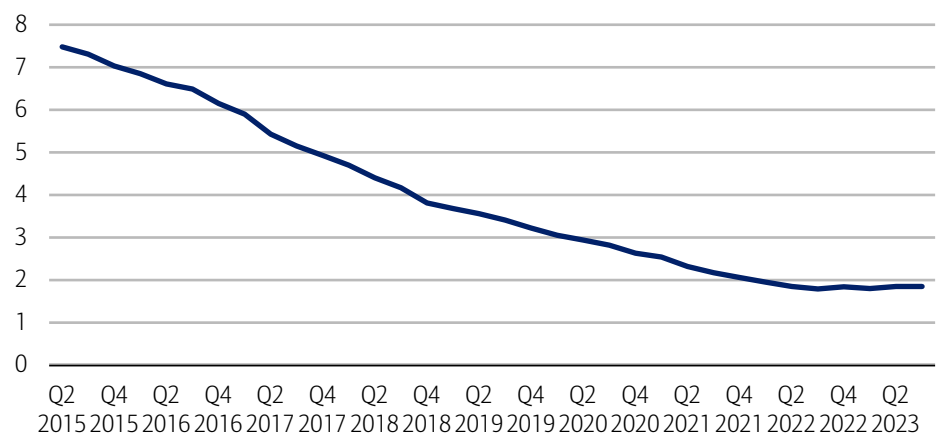


Source: BofA Global Research, EBA

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Exhibit 5: euro area Non performing Loans down by 75%

Euro area NPL ratio (%), 2015-23

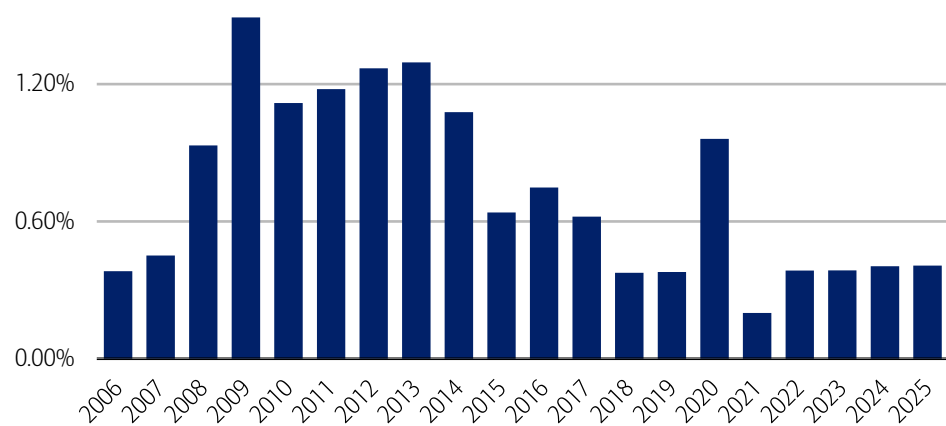


Source: ECB

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Exhibit 6: Loan impairments could be even lower in 2024E

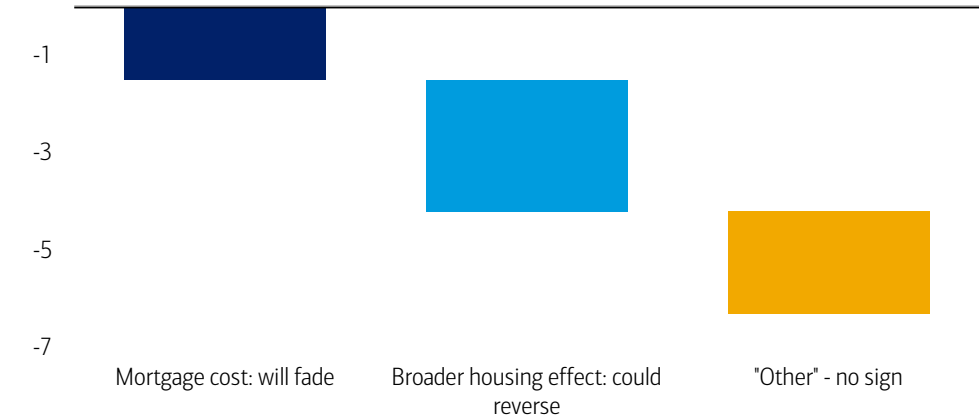
European banks, loan impairments % loans, 2006-25E



Source: BofA Global Research estimates, company report

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Exhibit 7: Bank of England sees multiple drivers of housing declines to lower consumer spending. But home prices are recovering
Impact on the level of consumption (% points) to 2026 from higher rates propagating via the housing market



Source: Bank of England

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