

European Banks Strategy

Results wrap: all calm

Industry Overview

No peak revenues here

Through 4Q 23 results, high single stock volatility caused friction, but earnings were strong (Exhibit 9) and guidance was upbeat. We expect low revenue growth 2024-25E (Exhibit 2), but revenues do keep growing (Exhibit 3). The 30% uplift 2021-23 was supported by rate normalisation, set to partly unwind (Exhibit 4). But banks were busy hedging rate risk, with a typical 50% cut to year 1 sensitivity. And all those other income streams – fees, trading, activity-based – are set to recover as energy prices shrivel (Exhibit 6); stock prices are up (Exhibit 5); and real wage growth returns (Exhibit 7). This last should also drive deposit inflows (Exhibit 8), now a key source of income.

No impairment cycle

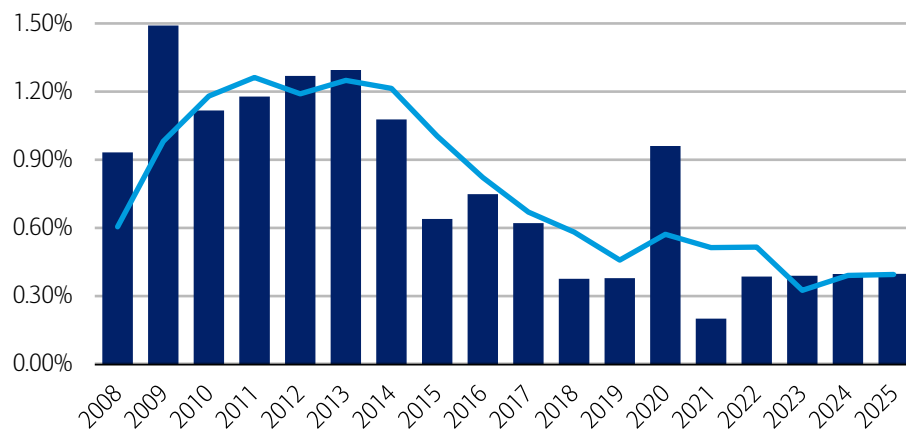
There are credit losses out there. But a remarkably low proportion are in European banks. Exhibit 1 shows we see no rise in P&L impairment charges in 2024E, after no rise in 2023. There is perhaps too little credit risk in banks – see [The stability of a graveyard](#) (report link), or at least in the large banks we cover.

Cash, cash, cash

With 23E final dividends still ahead, banks are set to distribute €175bn in the next 15 months, 16% of market cap (Exhibit 10). And we emphasise: these are distributions from earnings, not capital - Exhibit 11 shows banks funding 4% growth while keeping capital stable over 2024-25E. We remain positive.

Exhibit 1: impairments set to run at a third of post-crisis levels

European bank loan impairments, % gross loans, annual and trailing 3 year average



Source: BofA Global Research estimates, company report

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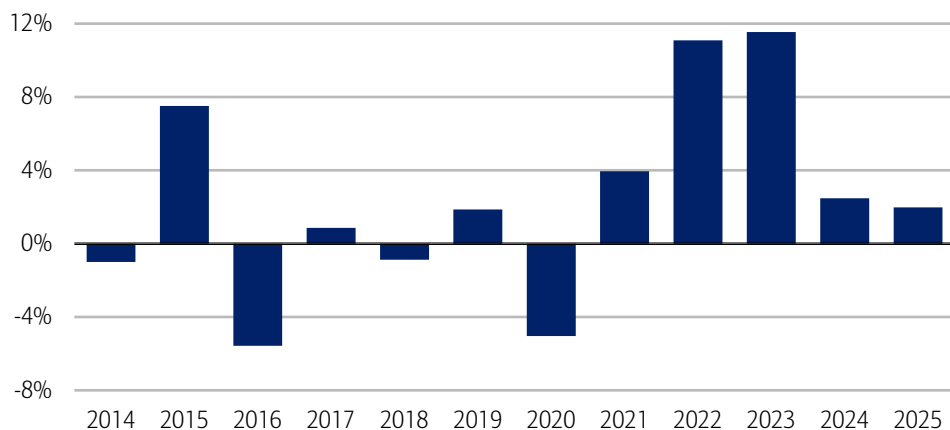
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Key charts

Exhibit 2: revenue growth slows but does not reverse

European bank revenues, 2012-25E (% growth y/y)

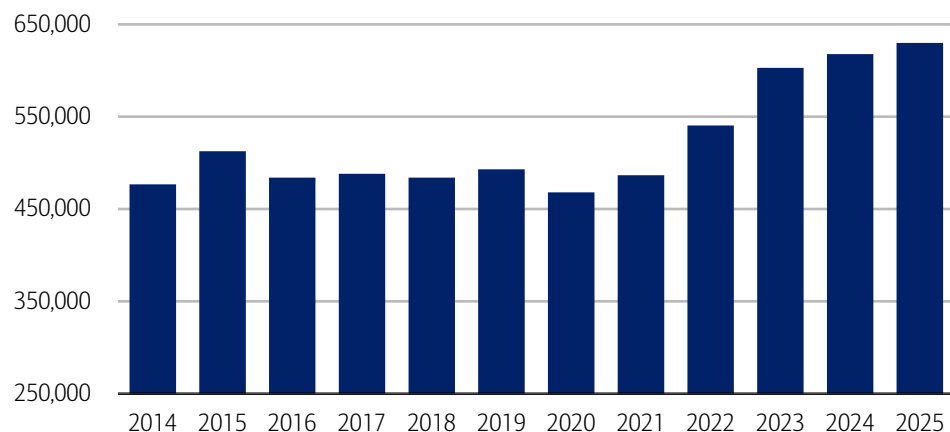


Source: BofA Global Research estimates, company report

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Exhibit 3: bank revenues have reset 30% higher. No peak here

European bank revenues, 2012-25E (€ mn)

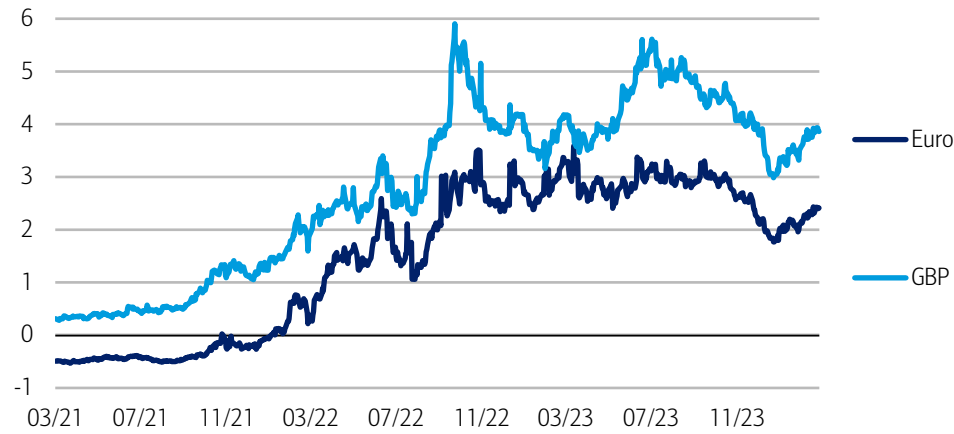


Source: BofA Global Research estimates, company report

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Exhibit 4: Market Implied Policy Rate, 2 years forward (%), 2021-24

Set to unwind a moderate part of the recent rise



Source: Bloomberg

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Exhibit 5: stock market-based income and Asset management flows set to recover

FTSE All World index (points)



Source: Bloomberg

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Exhibit 6: the European gas price almost halved in recent months

12 month forward European gas price (€ MWh)

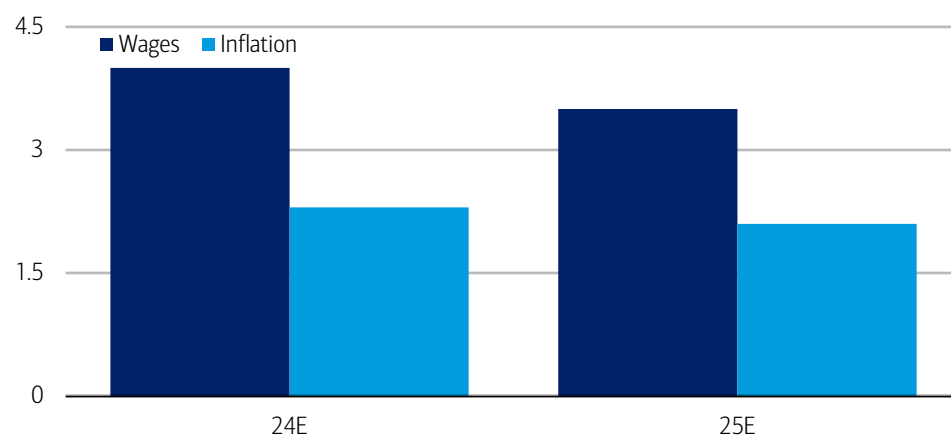


Source: Bloomberg

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Exhibit 7: real wage growth back in the euro area

Euro area wages and consumer price inflation, 2024-25E (% y/y)

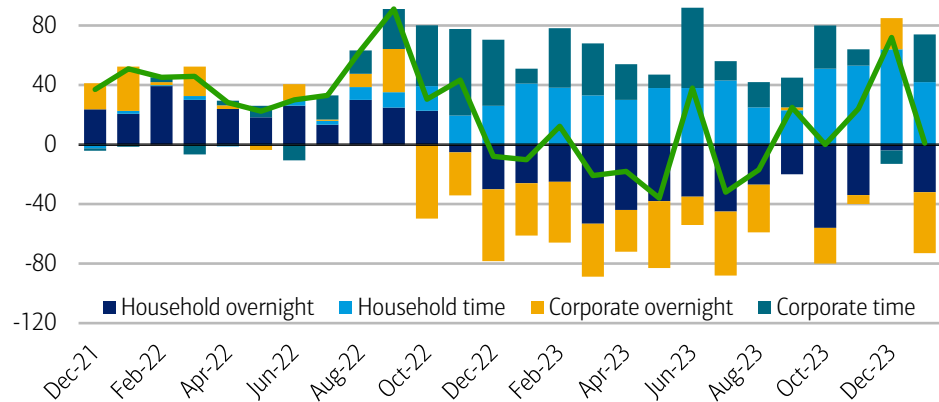


Source: BofA Global Research, Bloomberg

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Exhibit 8: euro area deposits broadly stable through the rate hikes

Euro area deposits by source and type, 2021-21 (€ bn), monthly change

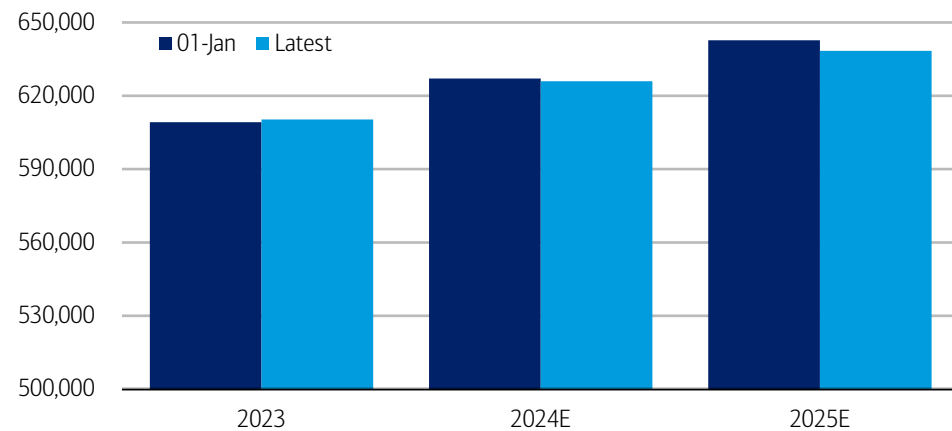


Source: BofA Global Research estimates, ECB

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Exhibit 9: revenue revisions very small YTD

European bank revenues, € mn, 2023-25E. as of 1 January and latest

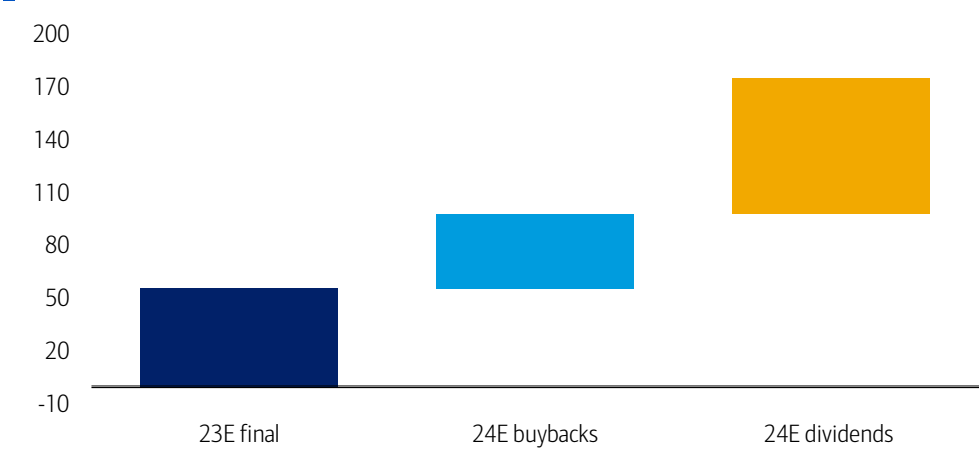


Source: BofA Global Research estimates, company report

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Exhibit 10: €175bn to shareholders in the next 15 months – 16% of market cap

European bank distributions (€ bn) 2024E and with full-year dividend



Source: BofA Global Research estimates, company report

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Exhibit 11: bank distributions are sustainable

European bank profits, dividends, buybacks and required capital to fund Risk Weighted Asset growth 2024-25E (€ mn)

	2024E		2025E	
Profit	157,424		163,468	
Dividends	-	76,770	-	75,318
Buybacks	-	42,162	-	38,365
Growth	-	35,410	-	51,034
Retentions		3,082	-	1,249

Source: BofA Global Research estimates

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