

European Banks Strategy

Conference feedback: Day 1

Industry Overview

14 European bank presenters today

On Day 1 of our in-person conference, the CEOs of UBS, SocGen, Lloyds, Caixabank, KBC, ING, Sabadell, Standard Chartered, Mediobanca and VMUK (Virgin Money) presented, with other main stage presentations from HSBC, NatWest, Barclays and Commerzbank.

Upbeat on Net Interest Income outlook

In our equivalent report a year ago ([Conference feedback: day 1, 20 September 2022](#), see report), we wrote that “across Spain, Germany and Italy, there are early signs that, as in the UK, pass through is low and bank profits therefore perhaps are more positively geared to the cycle than previously expected.” Since then, as discussed in [European Banks Strategy: Peak nothing 01 September 2023](#) (see report), bank earnings estimate upgrades have been 28%. This makes the positive outlook from banks at this year’s first day significant, we think: they have been good judges of their own sensitivity. As rates stabilise, the risks of abrupt changes to customer behaviour fade. So banks across the UK and continental Europe can be more confident in retaining deposit margins. Positivity on further Net Interest Income growth in 2H 23 and into 2024 was a key theme of Day 1.

Hedges – replication portfolios – treasuries – all point up

Banks have different names for the way they lock in the benefits of stable deposits being contractually nil duration while being behaviourally five years plus. But across Spanish, UK domestic, UK Asian, Benelux and German banks, the message was the same: the benefits of higher yields on this key income driver lie ahead (Exhibit 2).

Impairments notable by their absence

Banks presenting on Day 1 have seen very little, or no, deterioration in their loan portfolios. This reflects the structural reduction in credit risk inherent in their performing books (Exhibit 3, Exhibit 4) and the 75%+ reduction in their Non-Performing Loans (Exhibit 5).

Distributions robust

We show in Exhibit 6 the €112bn annual cash distributions from European banks. Given the lack of regulatory debate outstanding and the strong earnings outlook, we see the distributions well underpinned. The industry yields 11%, an exceptional figure now that it is well-capitalised and well-funded.

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Equity
Europe
Banks-Multinational/Universal

Alastair Ryan >>
Research Analyst
MLI (UK)
+44 20 7996 4806
alastair.ryan@bofa.co.m

Rohith Chandra-Rajan >>
Research Analyst
MLI (UK)
+44 20 7996 8495

Tarik El Mejjad >>
Research Analyst
MLI (UK)
+44 20 7996 0014

Antonio Reale >>
Research Analyst
MLI (UK)
+44 20 7996 1763

David Taranto >>
Research Analyst
MLI (UK)
+44 20 7996 7510

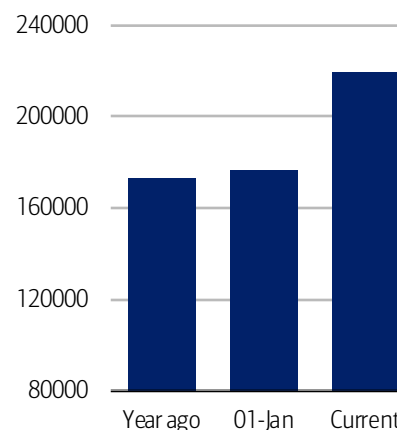
Filippo Munari >>
Research Analyst
MLI (UK)
filippo.munari@bofa.com

Olga Veselova >>
Research Analyst
Merrill Lynch (DIFC)

Ilija Novosselsky >>
Research Analyst
MLI (UK)

Exhibit 1: 2023E profit expectations up by 28% in a year

European bank Profit before tax 2023E (€ mn)



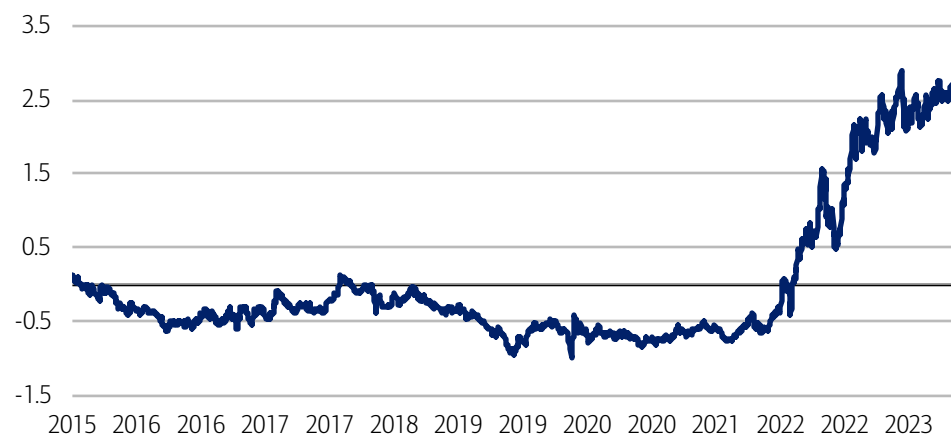
Source: BofA Global Research estimates. Excludes UBS to avoid negative goodwill distortion

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Key charts

Exhibit 2: Five-year money was free from 2015-22. Now it's expensive again

Euro area generic 5 year sovereign yield (%) 2015-23

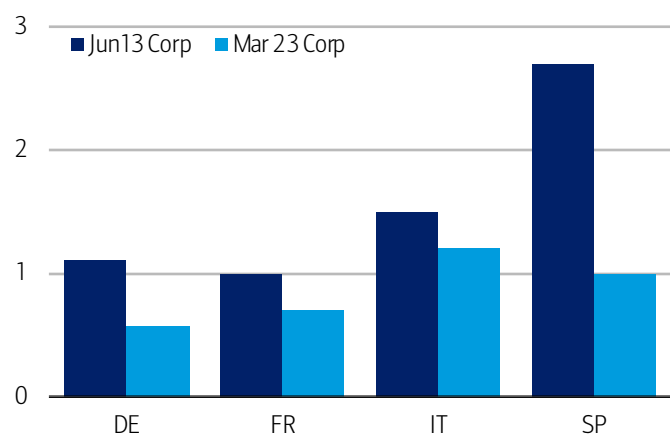


Source: Bloomberg

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Exhibit 3: Corporate Probability of Default is down 19-63%

Corporate loan books 50th percentile Probability of Default, 2013 and 2023 (%)

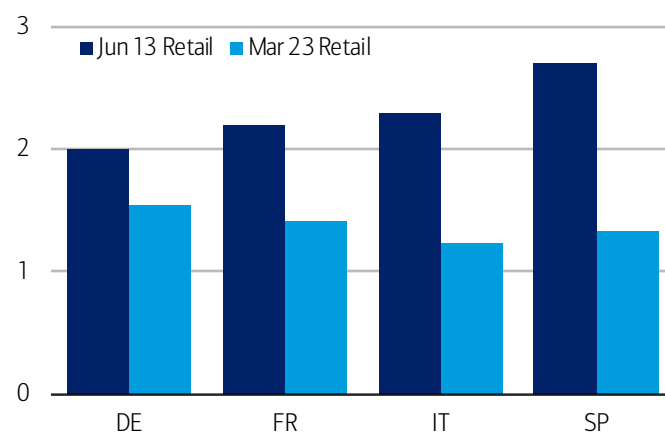


Source: BofA Global Research estimates, EBA

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Exhibit 4: Retail Probability of Default is down 22-50%

Retail loan books 50th percentile Probability of Default, 2013 and 2023 (%)

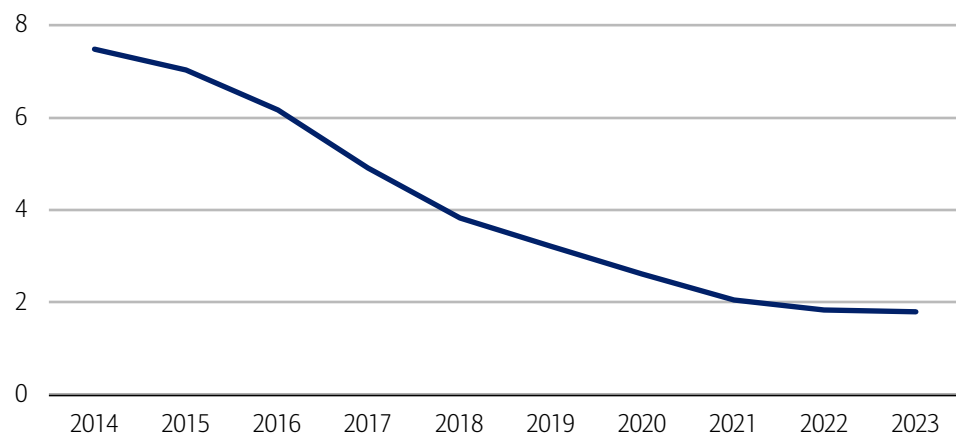


Source: BofA Global Research estimates, EBA

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Exhibit 5: Non Performing Loans are down by three-quarters since 2014

Euro area NPL % 2014-23

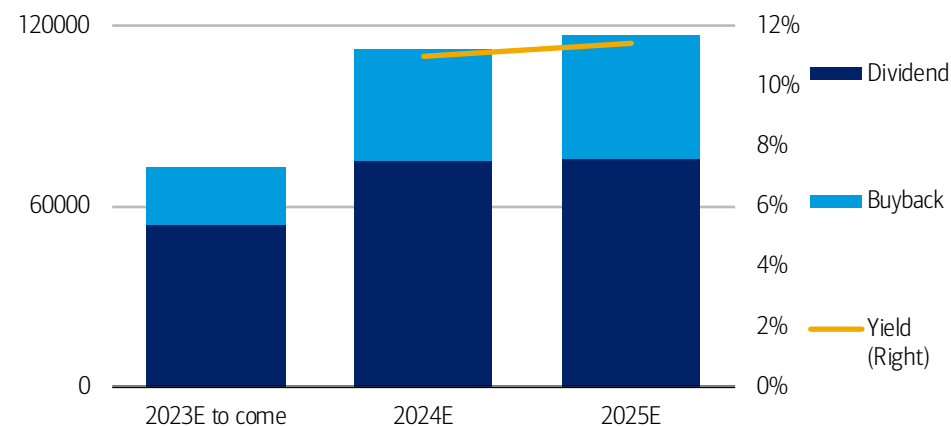


Source: BofA Global Research estimates, ECB

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Exhibit 6: European bank distributions €112bn a year

European bank dividends and buybacks: balance to come for 2023, full-year 2024-25E (€ mn)



Source: BofA Global Research estimates

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