

European Banks Strategy

Different times, different places

Industry Overview

Not concerned on credit

We discussed in [That was the credit cycle](#) and [Signs of the volume turn](#) (report links) how we see European residential property already recovering – a driver of potential GDP outperformance – and European commercial real estate stress as limited and idiosyncratic. European bank 4Q 23 results have affirmed these views. But with recent newsflow at New York Community Bancorp and Deutsche Pfandbrief Bank (PBB), we look back at why our covered European banks should see little impact.

Concentration risk way down

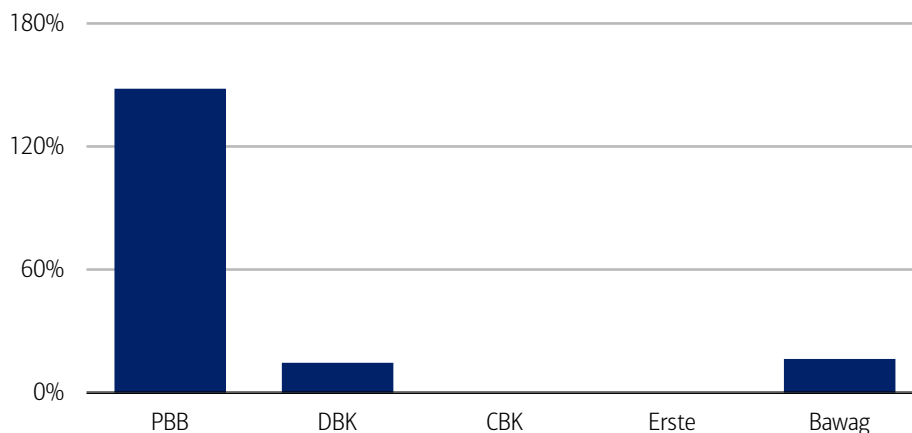
Back in the financial crisis era, Deutsche Bank's single-name risk appetite included a whole Las Vegas casino, the US\$4bn Cosmopolitan. Now, on double the Common Equity Tier 1 capital, Deutsche's entire US office exposure is €7bn, representing 15% of its CET1 (Exhibit 1). This is representative of the risk reduction across the sector.

Encumbrance way down

Pfandbriefbanken by definition are mainly funded using their loans. Back in 2008, Commerzbank had two such banks, Eurohypo and EssenHyp, with €250bn in assets – now wound down. This emphasises how almost all European banks now rely on core deposit funding (Exhibit 2). As highlighted in our Year Ahead 2024 report, the 160% sector Liquidity Coverage Ratio does not consider unencumbered collateral, for traditional banks typically as much again as High Quality Liquid Assets.

Exhibit 1: US office exposure, % Common Equity Tier 1, 3Q 23

Major German and Austrian banks



Source: BofA Global Research estimates, company report

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08 February 2024

Equity
Europe
Banks-Multinational/Universal

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

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

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

Olga Veselova >>
Research Analyst
Merrill Lynch (DIFC)

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

Ilija Novosselsky >>
Research Analyst
MLI (UK)

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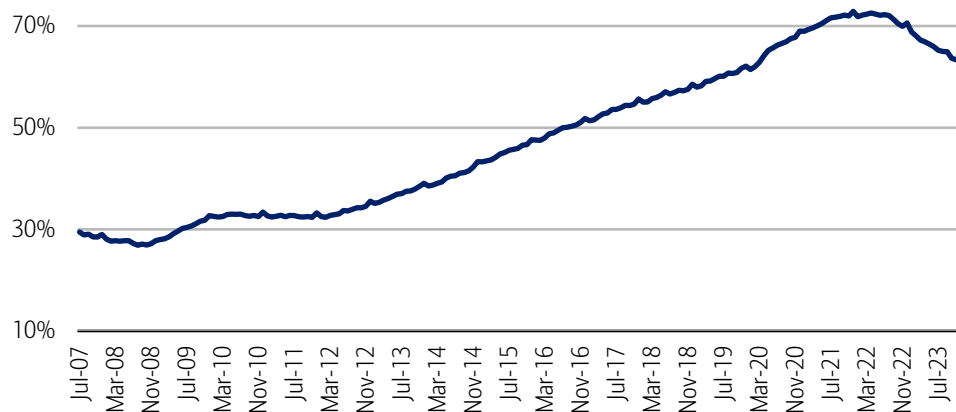
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Key charts

Exhibit 2: euro area banks overnight deposits, % loans 2007-23

A more than doubling even after rates normalization



Source: BofA Global Research estimates, ECB

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