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European Banking Study

A tiny glimpse in our analysis for 2022

partners for change

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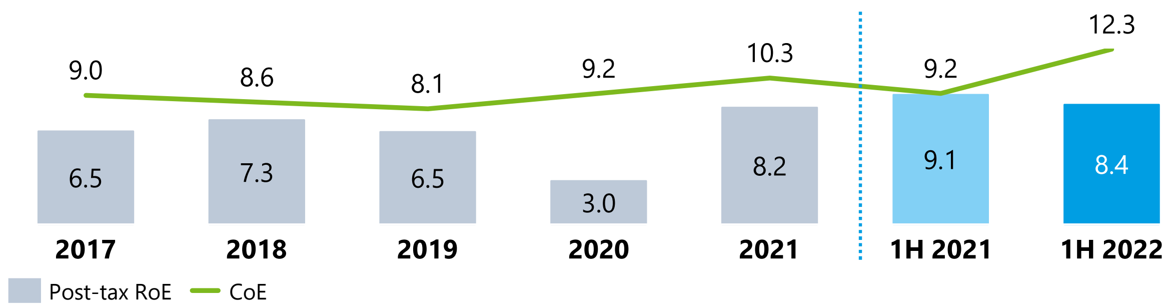
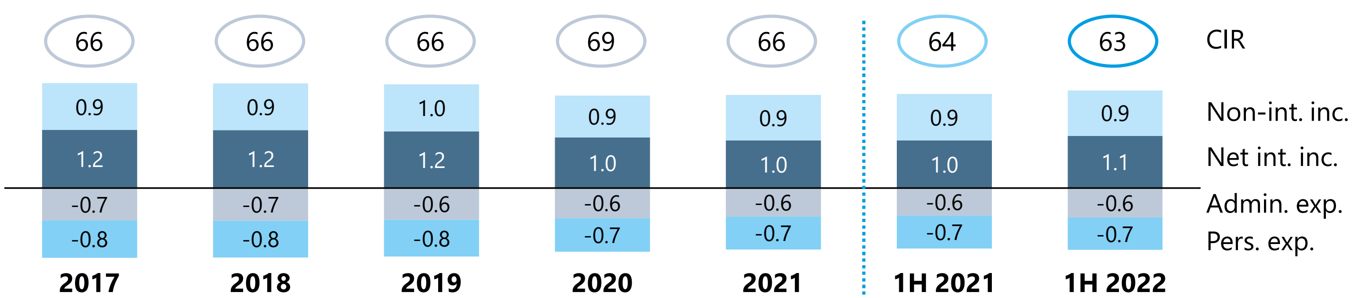
European banks' profitability remains robust in the first half of 2022 due to several contrary effects

Profitability and efficiency of Europe's top 50 banks

Post-tax RoE / Cost of Equity[1] (in %)



Cost-income ratio (in %) and P&L components (in % of average total assets)[2]



Comments

- **Profitability in 1H 2022** decreased compared to the particularly strong 1H21, which benefitted from positive catch-up effects
- First strong improvements in the **net-interest income** in 1H 2022 were more than compensated by higher **administrative costs** and **higher LLPs**, which increased from record lows in H1 2021
- **Cost of equity** clearly higher due to higher yields and market volatility

Sample contains the 50 largest European banks by total assets; all figures based on latest published FY21 reports; 1) Post-tax RoE (return on equity): post-tax profit to avg. total equity, cost of equity (CoE): yearly average of European 10-year gov. bonds as risk-free rate plus risk premium (2017-2019: 6.5%, 2020-2022: 7.0%) multiplied by banks' individual yearly average beta; 2) CIR (cost-income ratio): total expenses to total earnings; Source: company reports, FitchConnect, zeb.research

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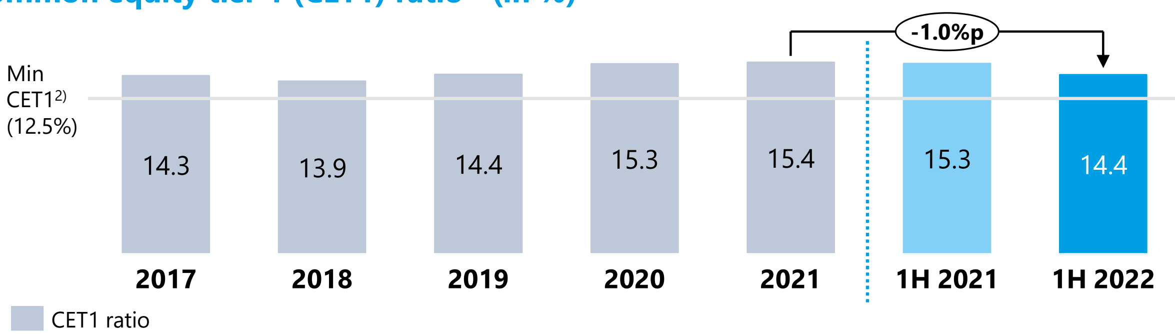
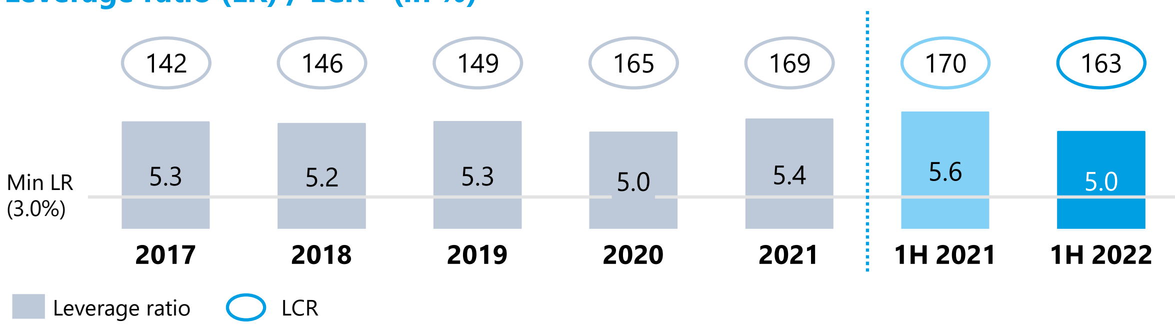
Banks' capitalisation declined recently due to share buybacks, valuation losses and increasing RWAs but remains on average well above regulatory requirements

Capital and liquidity of Europe's top 50 banks

Common equity tier 1 (CET1) ratio[1] (in %)



Leverage ratio (LR) / LCR[3] (in %)



Comments

- **Capitalisation** reduced significantly over 1H 2022 due to a lower capital base but higher RWAs
- Several large banks' focus to return cash to their shareholders via increasing **dividends/share buy-backs** primarily lead to a capital reduction in 1H 2022
- But also, first **valuation losses** due to changing yield curves were observable
- At the same time, business growth as well as regulatory changes lead to **higher RWAs**, additionally driven by currency effects from some large internationally operating banks

1) Transitional CET1 ratio: CET1 capital to risk-weighted assets; 2) Est. market avg., individual req. for each bank; avg. consists of 4.5% Pillar 1 req. + 2.5% capital conservation buffer + 1.0% avg. countercyclical buffer + 1.0% avg. systemic buffers (incl. G-SIB, syst. buffer) + 2.0% avg. SREP surcharge + 1.5% "manoeuvring" buffer; 3) All figures based on reported numbers, LCR: Liquidity Coverage Ratio; Source: company reports, FitchConnect, zeb.research

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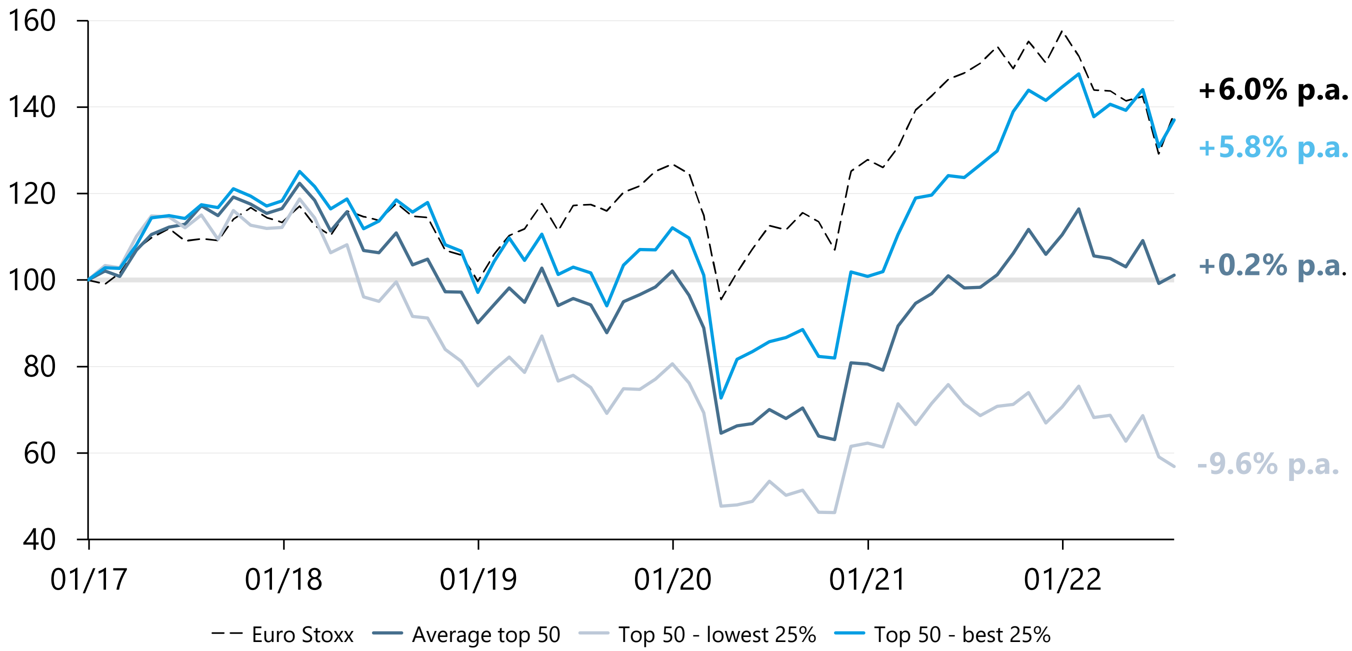
Development of banks' shareholder return has been disappointing in recent time – possible stagflation and recession scenarios weigh heavily on at least some bank stocks

Market performance

Total shareholder returns[1)]
01/2017–07/2022, in %

TSR performance[1)]
01/2017–07/2022



Comments

- European banks **capital market performance** is significantly behind the market
- **Since 2018**, bank share prices have decoupled from the market due to the pressure on NIIs without any hope of higher yields
- With **increasing yields** in 2020, banking stocks gained momentum and caught up with the market
- Banks also profited from **government relief programs** during the Corona pandemic
- However, some banks reached reasonable TSR performance – **top 25% banks** were +5.8% p.a. vs. -9.6% p.a. of the **lowest 25%**

1) Average Top 50: weighted average of the European top 50 banks (weighted by market capitalization, indexed as of 01/2017), lowest top 25%: weighted average of the 25% of the top 50 banks with the lowest average TSR p.a. 01/2017 - 07/2022; best top 25%: weighted average of the 25% of the top 50 banks with the highest average TSR p.a. 01/2017 - 07/2022; Source: Thomson Reuters Datastream, zeb.research

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