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European Banking Study

A glimpse in our analysis for 2022

partners for change

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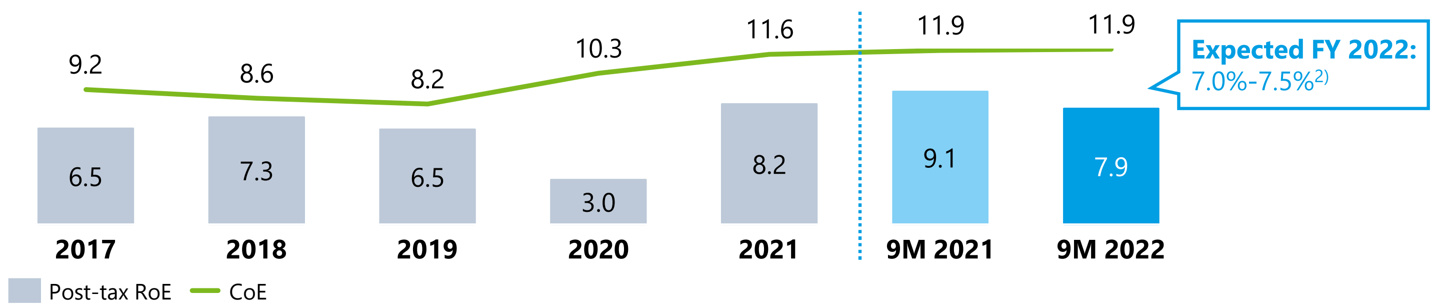
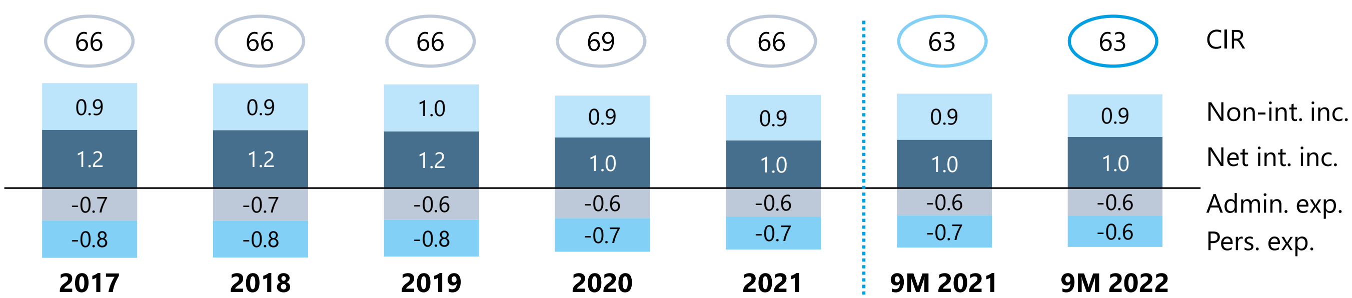
European banks' profitability remains robust in the first nine months of 2022 due to several contrary effects

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)[3)]



Comments

- **Profitability in 9M 2022** decreased compared to the very strong 9M21, which benefitted from positive catch-up effects
- First strong improvements in the absolute **net-interest income** in 9M 2022 were more than compensated by **higher administrative costs** and higher **LLPs**, which increased from record lows in 9M 2021 – however, with increasing B/S, margins remain stable
- **Costs of equity** remain on an elevated level driven by higher yields and market volatility that drive up the risk-free rate and banks' betas

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) Estimation based on average ratio of 9M to FY figures over the last three years; 3) CIR (cost-income ratio): total expenses to total earnings; Sources: company reports, FitchConnect, zeb.research

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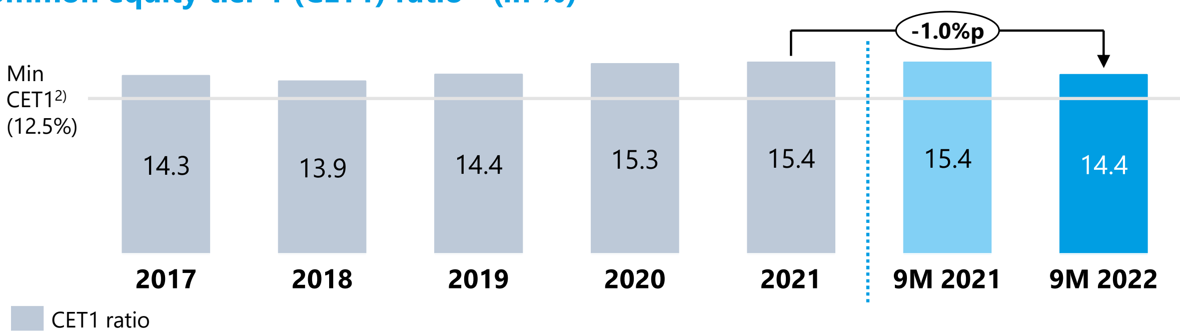
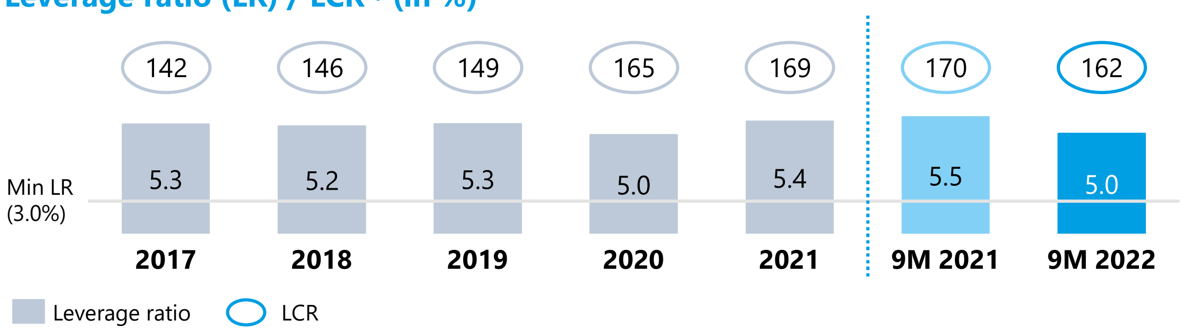
Banks' capitalisation declined recently due to share buybacks, valuation losses and increasing RWAs but remains on average well above regulatory requirements

Capital and liquidity of Europe's top 50 banks

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



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



Comments

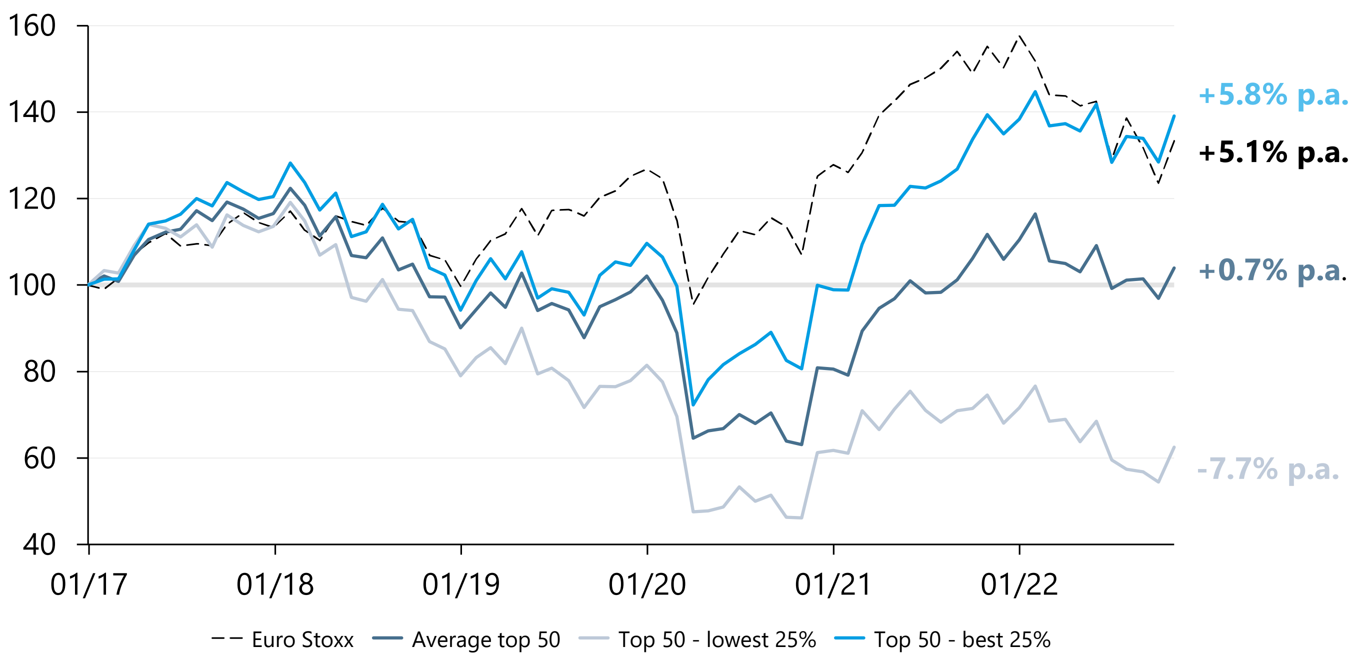
- **Capitalisation** reduced significantly over 9M 2022 due to a lower capital base and higher RWAs
- Several large banks' focus to return cash to their shareholders via increasing **dividends/share buy-backs** primarily led to a capital reduction in 9M 2022
- Also, first **valuation losses** due to changing yield curves were observable
- Aggregate **leverage ratio** dropped back to 2020 levels due to a lower Tier 1 capital base coupled with an increase in the LR net exposure – however, both liquidity figures, **LCR and LR**, remain well above regulatory requirements

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; Sources: company reports, FitchConnect, zeb.research

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

Market performance

Total shareholder returns[1)]
01/2017–10/2022, in %



Comments

- European banks' **capital market performance** is significantly below 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 COVID-19 pandemic
- Some banks reached reasonable TSR performance – **top 25% banks** were +5.8% p.a. vs. -7.7% p.a. of the **lowest 25%**

1) Top 50 average: 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 - 10/2022; best top 25%: weighted average of the 25% of the top 50 banks with the highest average TSR p.a. 01/2017 - 10/2022; Sources: Thomson Reuters Datastream, zeb.research

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