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# zeb.market.flash

## On track for success but complex subjects ahead

# What's in it for you?

## Stabilization of the successful start into 2024

- With EUR 6.5 bn, the market cap of global top 100 banks stabilizes slightly above the previous quarter's record value.
- Western European credit institutions once again outperformed their U.S. peers in terms of profitability, exhibiting an ROE of 13.5% in Q1 24.

## ECB starts rate-cutting while U.S. Fed rate is untouched

- In Q2 24, inflation is expected to further decrease in Western Europe and Germany, reaching levels of 2.3% YoY and 2.6% YoY, respectively.
- Long-term yields in the euro area and the U.S. shifted upwards in Q2 24 in light of the still high level of uncertainty regarding future inflation.

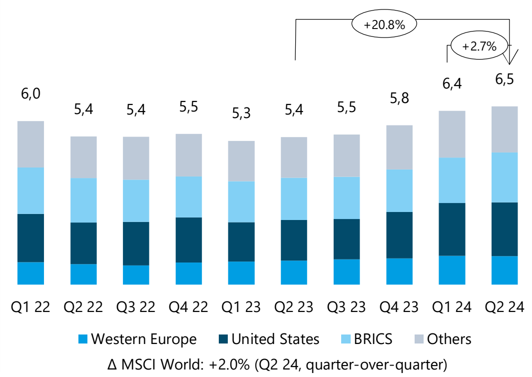
## ESG transformation proceeding but still ongoing

- Regulatory and political initiatives but also customers and investors have increased the demands on banks in recent years regarding ESG.
- In zeb's newest study, we look at three key questions: What is the maturity level of banks regarding the sustainability transformation. What challenges do they face? And how do these issues relate to the various areas of a bank?

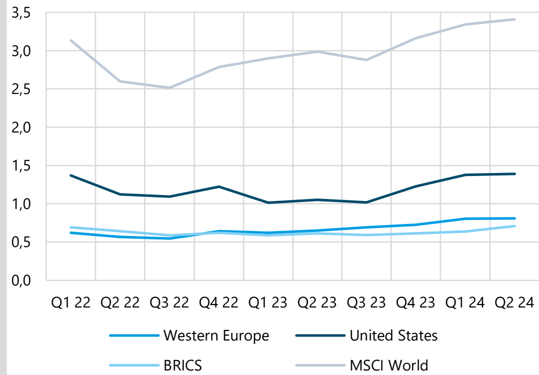
# The splendid start into 2024 stabilizes in Q2 at high level

Following a strong performance at the start of the year, **global capital markets stabilized in Q2 24 (MSCI World market cap. +2.0% QoQ, TSR +3.6% QoQ)**. The record market capitalisation of global top 100 banks in the previous quarter was even slightly surpassed in Q2 24 (+2.7% QoQ, TSR +4.5% QoQ). In terms of TSR performance, **Western European (+4.2% QoQ) and U.S. banks (+2.8% QoQ) were outperformed by BRICS banks (+11.4% QoQ)**, reflecting the strong performances of emerging markets. With central bank rate cuts initiated by the ECB and also expected soon by the U.S. Fed, banks' record profits from 2023 might come under pressure. A potentially exacerbating factor can be, e.g., rising insolvency rates and hence risk costs, and, in the long-term, major topics like digitalisation and carbon neutrality – see **this issue's special topic on the ESG transformation of banks**.

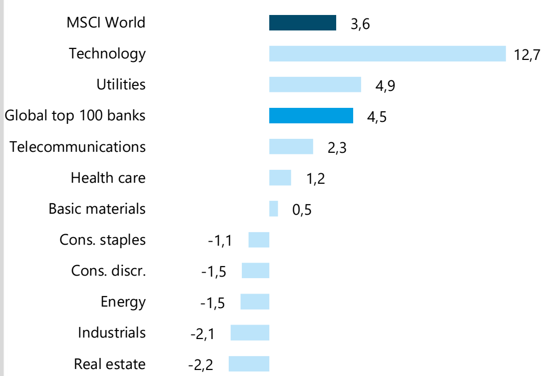
**Market capitalisation of top 100 banks (EoQ, in EUR tr)[1)]**




**P/B ratio of global top 100 banks and MSCI World[2)]**




**TSR of industry sectors worldwide (04/2024–06/2024, in %)[3)]**




**Top/lowest TSR performance among Western European banks (03/2024–06/2024, in %)**

| Top performers | Country | TSR |
|---|---|---|
| NATWEST GROUP | United Kingdom | 18.4 |
| HSBC | United Kingdom | 15.3 |
| BARCLAYS | United Kingdom | 15.0 |
| LLOYDS BANKING | United Kingdom | 10.5 |
| ING GROEP | Netherlands | 10.1 |

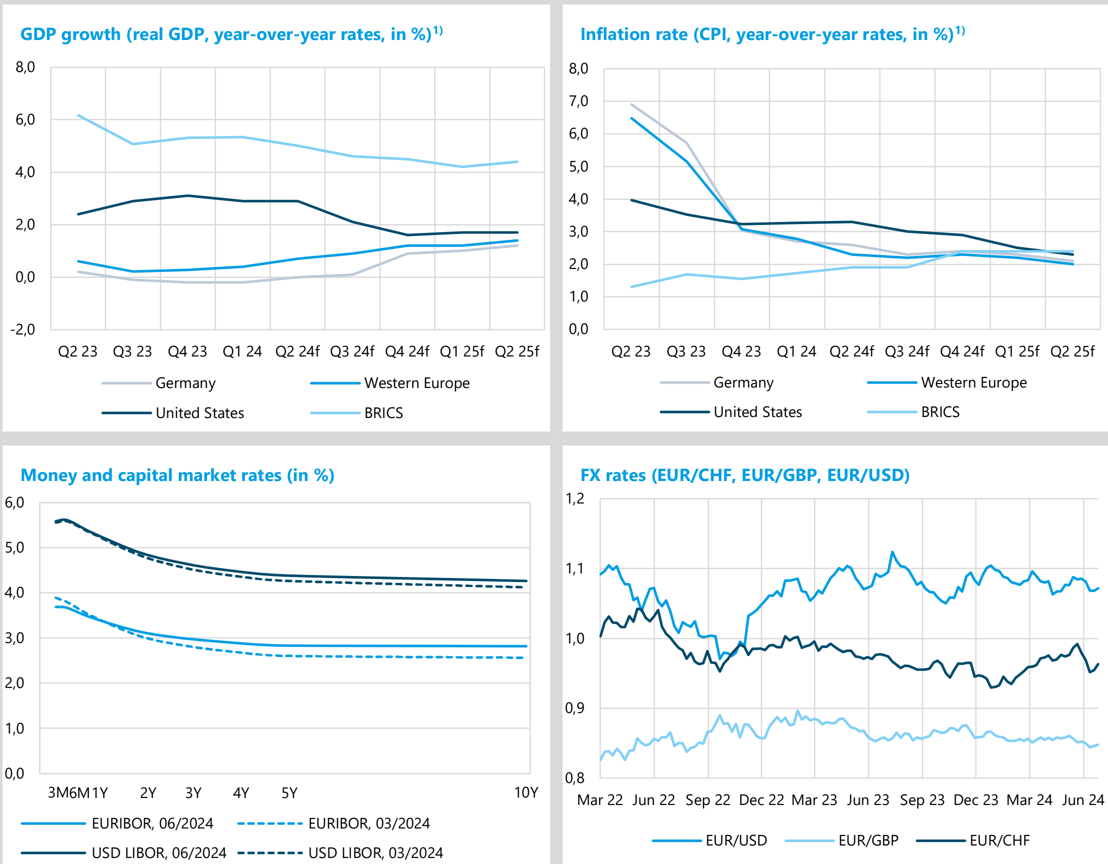
| Low performers | Country | TSR |
|---|---|---|
| BBVA | Spain | -12.8 |
| SOCIETE GENERALE | France | -8.7 |
| SVENSKA | Sweden | -5.1 |
| BNP PARIBAS | France | -3.5 |
| BANCO SANTANDER | Spain | -2.7 |

Western Europe: euro area, Denmark, Norway, Sweden, Switzerland, UK; BRICS: Brazil, Russia, India, China, South Africa (BRICS+ is not yet available as an aggregate on Bloomberg, so we will stick with BRICS for now); 1) The "global top 100 banks" contain the largest banks by market cap. on Dec. 31, 2023 – they have a market share of 75–80% compared to all banks (according to Bloomberg definition). Figures are in EUR; 2) P/B ratio: price-to-book ratio, calc. as harmonic mean; 3) Total shareholder return (TSR) of industry sectors other than banking based on global sector total return indices. Avg. TSR of global top 100 banks weighted by the market cap. of each bank. TSR and market cap in EUR; Sources: Bloomberg, Refinitiv Datastream, zeb.research

- **Western European banks' P/B ratios have stagnated** in Q2 after nearly two years of consistent growth, holding steady at 0.81x, whereas BRICS banks registered the greatest increase in PB ratios (+0.07x QoQ to 0.71x).
- Due to the continuing AI boom and adjacent robust branches, the **technology sector continues its triumphant march, exhibiting a TSR performance of +12.7% QoQ in Q2 24**. The **real estate sector ranks last in an industry sector comparison (TSR -2.2% QoQ)** as it has been hit by rising long-term interest rates and the recent turbulence in the (predominantly American) corporate real estate market.
- **Top performers** from Western Europe in Q2 24 have shown a strong **Anglo-Saxon focus, led by NatWest** with an +18.4% QoQ increase in TSR. In contrast, **BBVA experienced a negative performance (TSR: -12.8% QoQ) following merger talks with Banco Sabadell** in April 2024. The two banks had engaged in brief merger discussions in 2020, which fell through due to disagreements over valuation. The immediate response in April saw BBVA's **stock drop by 5.8%, reflecting the significant increase in Sabadell's value** since 2020.

# ECB starts rate-cutting cycle while U.S. Fed rate remains untouched

According to previous forecasts, analysts anticipated two consecutive quarters of -0.3% negative GDP growth for Germany in the first half of 2024. Following most recent market expectations, a **turning point from stagnation (Q2 24f: 0.0%) to growth is likely to occur towards the end of 2024 (Q4 24f: +0.9%).** At the same time, Western European (Q2 24f: +0.7%) and U.S. (Q2 24f: +2.9%) **GDP growth rates are expected to converge toward a common Western rate as early as Q4 2024**. Analysts have slightly revised their inflation expectations for Western Europe for Q2 24f from 2.4% to 2.3% with the **inflation target now within sight (Q2 25f: 2.0%) for the first time since the Russian attack on Ukraine**. Accordingly, the ECB initiated the expected interest rate cut of 25bp in June. With a current inflation level of 3.3% in Q2 24f, the U.S. economy faces more difficulty in reaching the 2% target rate. Yet, in its last two forecasts, the **U.S. Fed has still predicted three 25bp rate hikes for this year**.




Western Europe: euro area, Denmark, Norway, Sweden, Switzerland, UK; BRICS: Brazil, Russia, India, China, South Africa (BRICS+ is not yet available as an aggregate on Bloomberg, so we will stick with BRICS for now); 1) Forecasts based on Bloomberg composite forecasts; Sources: Bloomberg, Refinitiv Datastream, zeb.research

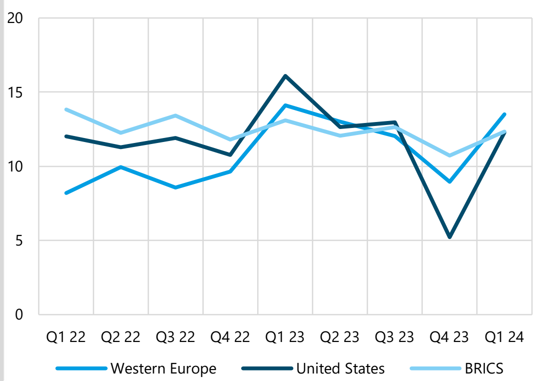
- In Q1 24, **inflation further decreased in Germany**, reaching 2.6% YoY, while **BRICS are even likely to exhibit a more permanent increase on a plateau** of 2.4% (Q2 24f: 1.9% YoY).

- **Medium- and Long-term yields in both the euro area and the U.S. have slightly shifted upwards**, with 10-year rates increasing by 26bp and 14bp, respectively. This reflects the continuing **high level of uncertainty regarding the long-term success of the fight against inflation**, meaning that it is possible that central banks might be forced to keep interest rates high for longer than intended.

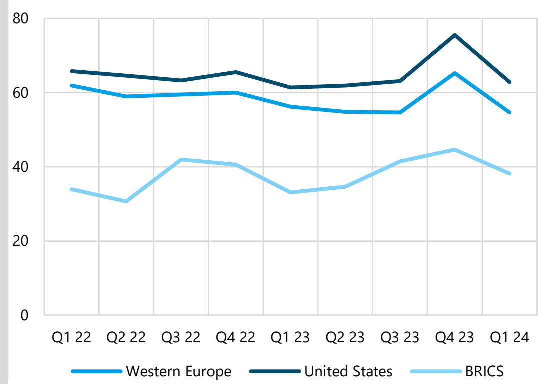
- While the EUR/USD and EUR/GBP exchange rates **have remained relatively stable**, the **Euro almost reached parity with the Swiss Franc in Q2**. However, the Swiss National Bank (SNB) continued its trend of **interest rate cuts in June**, lowering the rate to 1.25% **to counter the recently strengthened Franc**, which was reflected in an immediate devaluation of the Franc in June.

In response to the high profits resulting from the rise in interest rates over the last two years, the dividends and share buybacks planned by European banks this year amount to over EUR 100 bn. This is also reflected in an **increase of Western European banks' ROE by 4.5%p QoQ up to 13.5% in Q1 24** after having exhibited a decline in profitability in the previous three quarters. Thereby, Western European credit institutions once again outperformed their **U.S. peers, who nevertheless saw their ROE ratios rise by 7.0%p QoQ to 12.3%**. This sharp increase is due to the omission of the special assessment by the U.S. FDIC to cover the rescue costs of the aftermath of Silicon Valley Bank's collapse, which was due in Q4 23 and primarily paid by large U.S. banks, **restoring profitability of U.S. banks in Q1 24**.

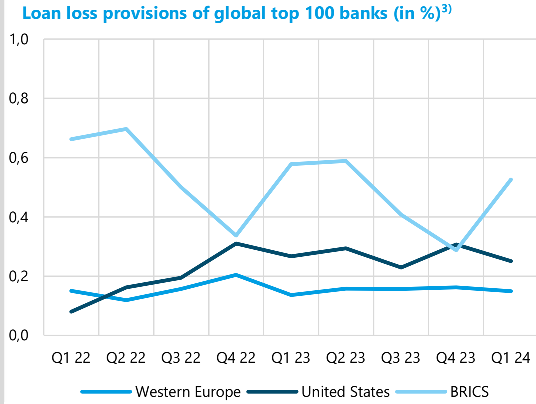
**ROE after tax of global top 100 banks (in %)[1)]**



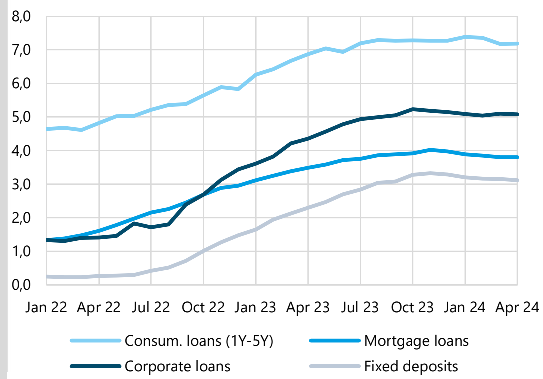

**Cost-income ratio of global top 100 banks (in %)[2)]**




**Loan loss provisions of global top 100 banks (in %)[3)]**




**Customer interest rates in the euro area (new business, in %)**




Q4 23 data not yet available; Western Europe: euro area, Denmark, Norway, Sweden, Switzerland, UK; BRICS: Brazil, Russia, India, China, South Africa (BRICS+ is not yet available as an aggregate on Bloomberg, so we will stick with BRICS for now.); Figures excluding UBS (extreme outlier values from negative goodwill in Q2 23 related to the acquisiton of Credit Suisse); 1) Post-tax ROE (return on equity): post-tax profit to average total equity, annualised values; 2) Cost-income ratio: operating expenses to total income, annualised values; 3) Loan loss provisions to average total assets, annualised values; Sources: ECB, Fitch Connect, Refinitiv Datastream, zeb.research

- At the end of 2023, Western European and U.S. banks had experienced a sharp increase in cost-income ratios, primarily driven by rising costs. This **trend reversed in Q1 2024**, again attributed primarily to the cost side (Western European banks: -11.6% QoQ, U.S. banks: -5.8% QoQ) as year-end specifics such as increased bonus pools and one-offs booked by banks were no longer prevalent. Overall, the **average cost-income ratio of the global top 100 banks decreased by 7.8%p to 50.9% in Q1 24**.
- Despite **CRE market turbulences in the U.S.**, **no significant turning point with respect to U.S. banks' loan loss provisions** can be observed in Q1 24 (cf. special topic of Market Flash no. 48). Yet, the still promising U.S. GDP forecasts might prompt banks to take a rather calm stance regarding possible loan defaults. While **Western European banks' provisions hardly changed at all in Q1 24**, BRICS banks continued their recent ups and downs recording an increase in loan loss provisions of +24bp QoQ.
- In light of the anticipated interest rate cut of the ECB in June, **customer interest rates exhibited a slight further decline across all considered types of loans** in the previous quarter**.**

# Special topic: ESG transformation proceeding but still ongoing

ESG – Environment, Social, Governance – has long been a highly relevant topic in the banking landscape, in particular in the form of sustainability. There were many hopes for new returns, but **currently ESG often only plays a role as a political and regulatory issue**. Reason enough to take a deeper look at the topic.

In order to **shed light on the maturity and challenges of banks in the sustainability transformation, zeb conducted a Europe-wide ESG survey** among German, Suisse, Austrian and international banks. The study focuses on the "E" and aims to identify the developmental differences between groups of banks and European financial centers, as well as to determine the patterns of measures in the transformation to date. We present the final key results and analyses here and are happy discuss them in person in more detail – please do not hesitate to [contact us](). The survey consisted of 37 questions covering all areas of a bank. Specifically, **five core fields of action were identified**, providing the ESG study's overall structure. These core fields are i) **competitive positioning**, which incorporates, e.g., the relevance of a positive ecological image for overall reputation; ii) **net-zero ambition and management**, i.e., the CO2e reduction plans in on-balance sheet business and investment business as well as the "net-zero" target for financed emissions in the loan portfolio and in operations; iii) **ESG implementation in risk management**, e.g., through the consideration of physical and transition risks in quantitative risk models; iv) **data and method frameworks** dealing with, e.g., the procurement, storage, and quality of ESG-related data; v) **business opportunities**, i.e., the consideration of ESG criteria in products and the utilization of ESG in sales. In total, **36 European banks of various types** participated in our study with respondents being mostly ESG managers. Their assessments allowed us to evaluate the status quo of European banks in the ESG transformation.

**Figure 1: P&L contributions from ESG[1)]**


**Figure 2: Measuring GHG emissions – application areas and standards**

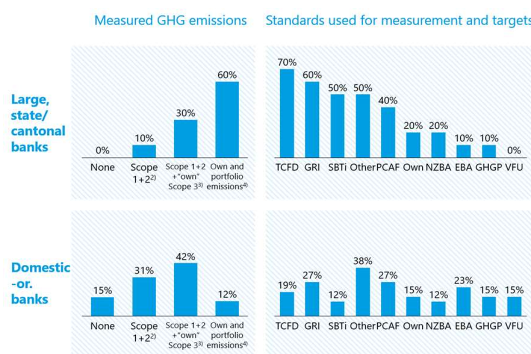



**Figure 3: Procurement of ESG-related data in financing and proprietary investment business at various quality levels**

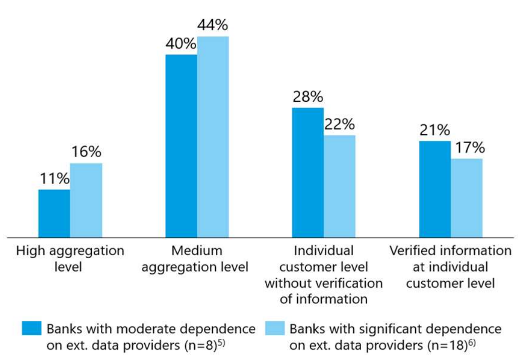
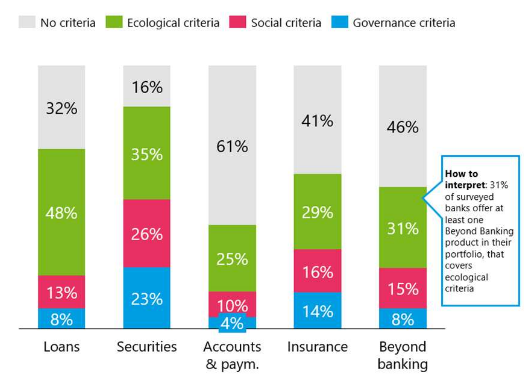



**Figure 4: ESG criteria in the product range[7)]**




1) Survey question: "From today's perspective, how does ESG measurably affect the P&L account of your institution?"; 2) Scope 1 emissions: direct greenhouse gas emissions from a bank's own business activities; Scope 2 emissions: indirect emissions generated by suppliers; 3) Scope 3 emissions: indirect emissions along the entire value chain; 4) Scope 1-3 incl. cat. 15; 5) Moderate dependence on external data providers = at least 26% of all ESG data is collected internally; 6) Significant dependence on external data providers = max. 25% of all ESG data is collected internally; 7) Survey question: "In which areas does your institution offer products that are characterized by the following sustainability criteria?"; source: zeb.research

Considering the core field of action **“competitive positioning”**, European banks perceive **ESG as a key reputational factor**. For nearly all banks surveyed, a positive ecological image is at least as relevant to their overall reputation as, for example, respectability or stable business figures. The **most important motives are regulatory requirements and expectations of stakeholders,** which are stated as the main driver for pursuing environmental goals by 53% and 31% of banks, respectively. Earnings and costs on the other hand hardly play any role. From a business perspective, the ambition to make ESG a differentiator in competitive positioning has not yet been achieved. While 89% of banks expect a competitive advantage through ESG, so far **25% measure positive P&L contributions from ESG**. Regarding the latter, figure 1 shows that there is also substantial heterogeneity across groups of banks. Generally, there is not yet an overarching business success through ESG to be seen with state and cantonal banks standing out as they consistently measure no negative contributions.

In what is arguably the central core field of action, **net-zero ambition and management**, banks’ responses significantly **differ concerning net-zero ambitions for operations and the loan portfolio**. On average, operations will achieve net zero much sooner as approximately 50% of institutions plan to be carbon neutral by 2035 at the latest (loans: 3%). Across both categories, there is a clear correlation indicating that **smaller banks are more likely to have no net-zero targets**. Substantial differences across bank types can also be observed regarding GHG measurements as shown by Figure 2. **Large banks measure portfolio emissions to a greater extent and often use uniform standards** (GRI, TCFD, PCAF and SBTi) to do so. Smaller banks on the other hand focus more on operations and exhibit a greater heterogeneity in the use of standards and tools. Across all banks surveyed, 22% have already defined specific KPIs for reducing GHG emissions in the loan portfolio. In **operationalizing their net-zero strategy, most banks focus on excluding certain sectors** with fossil energy generation and coal and mining being the most frequently mentioned sectors.

The **implementation of ESG in risk management** is still in progress. Most credit institutions do not yet evaluate physical and transition ESG risks using existing or specially created risk models. Furthermore, 75% of the banks surveyed state that capital requirements in their economic risk-bearing capacity calculation have not increased as a result of taking physical ESG risks into account (transition ESG risks: 78%).

Turning to **data and method frameworks**, the **lacking availability of ESG-related data is the biggest obstacle to ESG data management**. This is reflected in the utilization for relevant processes: the low use of ESG data is in particular prevalent in credit pricing with 66% of the banks surveyed stating that they do not employ ESG data at all. On the contrary, 57% of banks use ESG data mainly or even entirely for their own investments as there is a comparatively good data availability. In a comparison, the **procurement of ESG data at a high-quality level is slightly less common at banks with a significant dependence on external providers**. Figure 3 shows the procurement of ESG-related data in financing and proprietary investment business at various quality levels. For example, 21% of banks with moderate dependence on external data providers use verified information at the individual customer level whereas 17% of banks that have a significant dependence on external data providers use such information.

When it comes to **business opportunities**, banks still work on finding a concrete economically viable ESG business model. For example, **56% of the banks surveyed have not conducted ecologically induced price adjustments** so far. Overall, there are also still many banks without ESG criteria in their product range as shown by Figure 4. Here, the **"E" criteria are most likely to be integrated into the product range,** e.g., for loans and beyond banking. In the banks’ self-perception, innovative products are for the most part not really innovations, as they tend to be the market standard already, such as, e.g., refurbishment loans. When looking at the usage of ESG in sales, the high rate of **67% of banks leveraging the topic of sustainability in customer appointments and campaigns** is striking. However, ESG qualification of sales staff, measured by training rates and training durations, varies greatly by country and group of banks. For example, Suisse banks exhibit a comparatively high average training rate of 80% (AT: 71%; DE: 53%).

Summarizing, ESG is and remains an important topic. Sustainability should not only be regarded as a regulatory issue, but **still remains an opportunity for banks**. For this to work, however, a number of things need to be done. Evaluating our five core fields of action, banks should focus on certain key levers on their way to becoming green transformers. That is **i) a persistent focus on ESG data; ii) full integration of ESG into management processes and governance structures; and iii) to act as a provider of information and not fall into preacher mode.** It is important to understand that ESG is a fundamental issue that cannot be dealt with by a few reports or calculating some ratios. **Decarbonization will change the economy and therefore also the banking landscape**. Each bank must actively look at where and how it can and should position itself to benefit from the opportunities that the sustainability transformation provides.

## About zeb.market.flash

**Compact. Competent. Independent.**
Every quarter, zeb.market.flash provides an overview of the performance of the world's largest banks (measured by market capitalisation). The relevant factors are briefly and concisely described, analysed and classified by our experts. For our analyses, we take a close look at relevant indicators for the valuation of the capital market, such as stock returns, as well as macroeconomic and bank-specific drivers. These include return on equity, yield curves, or growth of the gross domestic product.

One focus is on the performance of the top banks in Europe in our sample. How does their development compare to that of the largest banks worldwide? Which European bank shows a particularly good, which a particularly weak capital market performance? What could be the reason for this? In addition, each issue deals in detail with a currently particularly relevant special topic in the industry.

Our background knowledge from 30 years of financial service consulting rounds off these assessments. This gives you an exclusive and compact insight into the global banking market. The zeb.market.flash is available on our websites and sent free of charge as a newsletter to all interested parties.

## Disclaimer

All data and calculations of this issue are based on the date of April 4, 2024. The global top 100 banks cluster contains the largest banks by market capitalisation on December 31, 2023 and is updated on an annual basis. Data is subject to ongoing quality assessment. As a consequence, minor adjustments could be applied to historical data as well as forecasts shown in previous issues of the zeb.market.flash. No representations, warranties or undertakings are given as to the accuracy or completeness of data contained in the zeb.market.flash.

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As a leading strategy, management and IT consultancy, zeb has been offering transformation expertise along the entire value chain in the financial services sector in Europe since 1992. We have five offices in Germany – Frankfurt, Berlin, Hamburg, Munich and Münster (HQ) – as well as 11 international locations. Our clients include European large-cap and private banks, regional banks, insurers as well as all kinds of financial intermediaries. Several times already, our company has been classed and acknowledged as "best consultancy" for the financial sector in industry rankings.

For more information visit **www.zeb-consulting.com**

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