Chart in focus

European banks: 2011 results reveal strategic challenges

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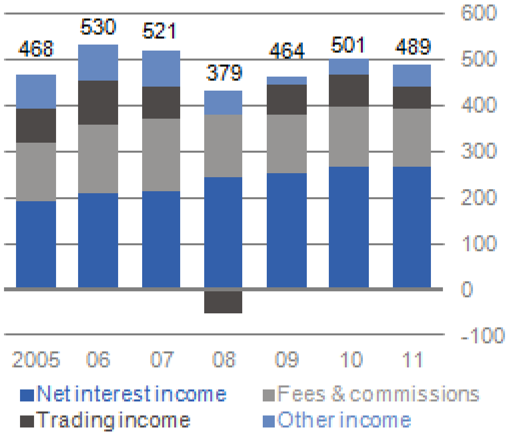
For the first time in at least a decade, all major revenue components at the 20 largest European banks declined simultaneously. Apart from trading income (-24%), the decrease was modest (interest income -0.5%, fees & commissions -1%) yet the looming challenge for banks' business models has finally become crystal clear: there is no obvious driver for future growth. Past performance had been boosted by credit growth and financial innovation but that came to an end with the financial crisis. Net interest income, which expanded strongly between 2007 and 2009 (+20%) on the back of lower funding costs, is now impacted by soft loan growth. Total revenues fell by 2.4% yoy in 2011 – a far cry from the -27% in 2008; however, a rebound as in 2009 is rather unlikely given the ongoing tightening of regulation (Basel III, consumer protection measures etc.), not to speak of financial transaction taxes and debt bail-in regimes that make bank bonds less attractive for investors. Recent central bank intervention has bought time and reduced funding costs, which may support interest income this year, but this is no substitute for a long-term solution. As long as banks fail to bring down the high level of operating expenses (which they have just started to do, though costs were still up by 2% in 2011) and find new ways of generating earnings, profits are likely to be disappointing. Fortunately, at least, the industry has often proven its innovativeness and – at the latest – when European economic growth finally recovers following the current adjustment process, the outlook for banks may brighten up again.

Total revenues at Europe's largest banks

EUR bn



Sources: Company reports, DB Research

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