



December 17, 2021

# European bank performance

## Do it again, like in 2009 (and 2010)!

**Author**

Jan Schildbach  
+49(69)910-31717  
jan.schildbach@db.com

www.dbresearch.com

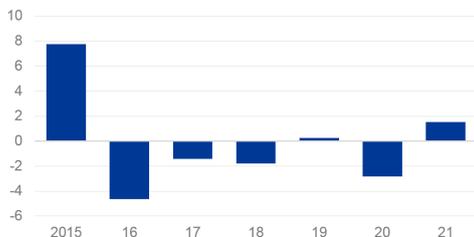
Deutsche Bank Research Management  
Stefan Schneider

The rebound of Europe’s banking sector from last year’s slump in some ways resembles the recovery following the financial crisis. Just the drivers are different. While in 2009 the main improvement came from much lower writedowns on securities portfolios, in 2021 it was much lower loan loss provisions than in the prior year. In both cases, benign capital markets provided an additional tailwind for investment banking franchises. The industry’s capital and liquidity levels remain high. Maintaining this momentum in 2022 will be more difficult as the low-hanging fruit has been picked. But it may still be possible, given past experience and confidence that the macro economy will continue to gain strength once the pandemic (and supply constraints in manufacturing) has subsided.

As the year draws to a close, European banks’ performance comes with a sense of déjà-vu, as the rebound from the pandemic somewhat resembles (mainly investment) banks’ recovery from the financial crisis. Back then, in 2009, there were no massive writedowns on securities portfolios like in 2007 and 2008. Equity and bond markets surged after the post-Lehman slump, combined with strong trading and issuance activity. As a result, investment bank revenues and profitability recovered markedly – though this cannot be said of traditional commercial banks, which continued to suffer from heavy loan losses in the wake of the Great Recession.

### Administrative expenses at Europe’s top banks\*

9M results, % yoy



\* excl. UK institutions

Sources: Company reports, Deutsche Bank Research

This time, of course, drivers are a bit different. Last year, the biggest hit to European banks’ P&L came from the jump in loan loss provisions as the pandemic recession unfolded, with its course, impact and mitigation completely unclear. In 2021, large banks’ results for the first nine months of the year indicate a resounding reversal, with loss provisions on course to match their lowest level in a decade and a half (-54% yoy). The decline was more pronounced in Northern and Central European countries than in the West and South. Furthermore, revenues look set for healthy growth (+5%), boosted by fee and commission income (+12%) and trading income (+5%) more than compensating for the ongoing shrinkage in net interest income (-1½%). This drove a strong rebound in net income (currently +219% yoy), which could lead to the highest annual profit since the financial crisis. Banks’ capital-market-linked operations (i.e. investment banking and asset & wealth management) performed impressively, another parallel to 2009. However, this may bring an end to the last five years’ trend of decreasing administrative expenses, in nominal terms. In the first three quarters of 2021, these were up 1½% compared to the prior period, as compensation rose in particularly





## European bank performance

---

successful business segments. Nevertheless, the cost-income ratio fell 2 pp to 61%, largely returning to its level of the past few years.

Capital- and liquidity-wise, it is remarkable that both the CET1 ratio and the leverage ratio essentially remain at record levels despite the resumption of full-scale shareholder payouts. The CET1 ratio has increased by 0.6 pp yoy to 14.7% on average, the leverage ratio by 0.2 pp to 5% on a fully loaded basis, i.e. ignoring the possibility of euro-area banks temporarily excluding certain exposures to central banks from the ratio's denominator. Since the end of the ECB's "dividend ban" at the end of September, many banks have rushed to return billions in capital to their owners, in the form of dividends or share buybacks or a combination of both. Some banks are now even distributing "outstanding" dividends planned for the year 2019 and suspended at the onset of the coronavirus pandemic. The LCR has continued to climb, although less forcefully than before, to a new record high of 161% (+4½ pp).

In balance sheet terms, developments were less striking. Total assets rose 3% yoy, indicating a gradual return to normal following last year's rapid expansion. Similarly, total equity edged up 3½% and risk-weighted assets 1%. Indeed, in the euro area corporate loan growth has come down from its peak of 5.8% in May 2020 to just 1.1% today (close to the pre-crisis figure). Retail loans, on the other hand, maintain their robust momentum (+4%), driven by mortgages. Banks' liquidity holdings at the central bank are the one area that is still far from normal. At the end of October, they had reached a staggering EUR 4.6 tr – more than 12% of total assets, despite the ECB's negative deposit rate.

What does that mean for next year? Will it be like 2010 or quite different? 2010 saw a further strengthening of European banks' results – it was the peak of the short post-financial crisis recovery, after which the European debt crisis precipitated another slump. 2022 could also be a year of additional progress. The macroeconomic outlook is relatively benign, with real GDP forecast to grow 3.8% in the EMU (and 4.6% in the US), almost as much as in 2021, as the recovery from the pandemic recession has partly been delayed due to supply bottlenecks, surging inflation and the lingering virus crisis. Thus, for some banks with still-elevated loan loss provisions, these could come down again. Likewise, revenues should benefit from a moderate rise in interest rates and the ongoing pickup in the real economy across sectors – governments will spend the "windfall" NGEU (next generation EU) funds, companies will probably invest more, and households will use part of their pent-up savings for consumption.

But it will probably be less easy than in the last 12 months, when the tailwind from lower provisions accounted for the biggest P&L improvement. Similarly, the buoyant capital markets environment could normalise further, with regard to trading and issuance volumes as well as valuations. Banks will also have to deal with the expiration of the most favourable funding conditions in June (interest rates as low as -1%) under the ECB's TLTROs (targeted longer-term refinancing operations). As a consequence, a substantial TLTRO volume may be repaid early, although this should not cause serious issues given abundant liquidity, sufficient timing flexibility and possible alternatives. Discussions about the implementation of final Basel III (Basel IV) in the EU, too, are likely to intensify – though the impact overall may be less than feared yet could still be significant for large universal banks, especially in the long run after the phasing out of temporary adjustments. Finally, the transition towards a more



## European bank performance

---

sustainable economy and financial system will see the looming new EU taxonomy not only become a benchmark for banks' ESG reporting but also increasingly shape their day-to-day financing and investment decisions.

© Copyright 2021. Deutsche Bank AG, Deutsche Bank Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made. In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, licensed to carry on banking business and to provide financial services under the supervision of the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin). In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG, London Branch, a member of the London Stock Exchange, authorized by UK's Prudential Regulation Authority (PRA) and subject to limited regulation by the UK's Financial Conduct Authority (FCA) (under number 150018) and by the PRA. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Inc. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.