



European banks: Net interest income rises sharply in Q2 2022

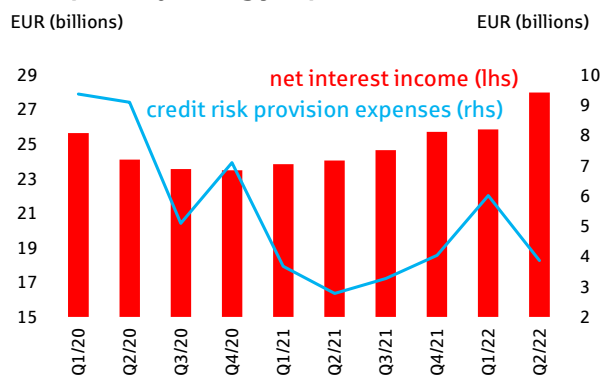


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With the second quarter 2022 reporting season now largely behind us, the credit metrics of European banks have proven to be remarkably resilient. The results of most banks were even above consensus estimates compiled by Bloomberg, with earnings holding up rather well.

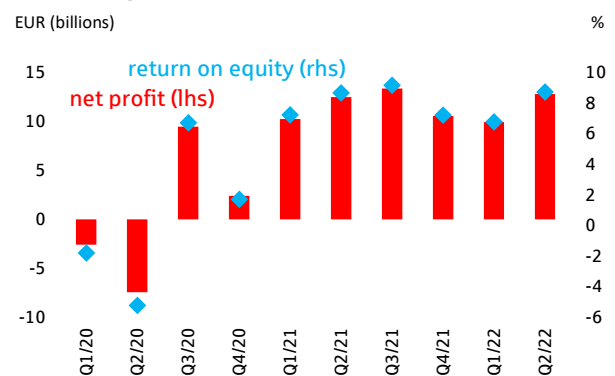
A particularly encouraging sign was the fact that outperformance was driven by a combination of high-quality sources of income and a persistently low level of non-performing loans. As the interest rate environment is changing, net interest income has recently been fuelled by rising interest margins and a sustained growth in lending activity. At a selection of major banks monitored by us, net interest income in the second quarter of 2022 was a combined 16 % higher than in Q2 2021, which compensated for lower trading income that was adversely affected mark-downs on fixed-income securities. Despite enormous investment in digitisation and the transition to a sustainable economy, costs remained firmly under control.

Unexpectedly strong jump in interest rates



*selection of European banks (Banco Santander, BBVA, Commerzbank, Deutsche Bank, ING Group, Nordea, Unicredit, SEB, Swedbank)
Sources: Bloomberg, Helaba Research & Advisory

Resilient profits



*selection of European banks (ABN AMRO, Banco Santander, BBVA, BNP Paribas, Commerzbank, Deutsche Bank, ING Group, Nordea, Unicredit, SEB, Société Générale, Swedbank)
Sources: Bloomberg, Helaba Research & Advisory

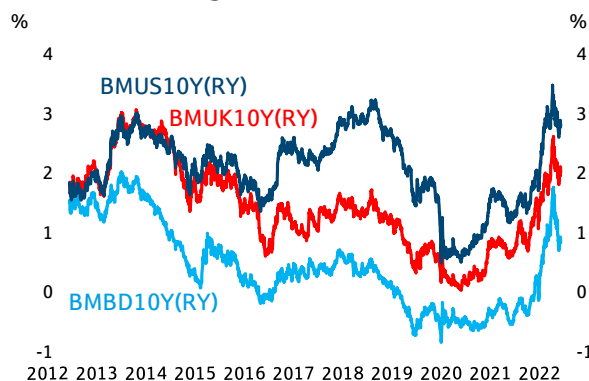
Yet many banks anticipate a gloomier macroeconomic environment ahead and are less optimistic about the outlook for earnings. For example, Christian Sewing, Deutsche Bank's CEO, commented: "The months ahead will continue to be challenging. There is reason to believe that things will become even more difficult economically." While a number of banks were able to reverse some of the additional provisions for credit losses that they had previously set aside during the COVID-19 pandemic, some of them reclassified the corresponding items as reserves due to heightened recessionary risks. At the same time, several institutions were forced to book exceptional charges,

such as additional provisions relating to Swiss franc loans in Poland at Banco Santander. In many cases, banks are gearing up for an increase in loan defaults by 2023 at the latest.

Overall, though, the banking sector is well equipped to deal with rising credit risks thanks to its extremely robust capital ratios as a result of the tough regulatory measures imposed over the past decade. Furthermore, the entire sector's exposure to Russia/Ukraine is relatively limited (European banks: **"War in Ukraine clouds outlook - mainly due to indirect effects"** of 28 February 2022). So far, problem loan ratios have remained encouragingly low..

For 2022 as a whole, we anticipate that European banks will once again post relatively healthy profits. Higher interest rates will remain a key driver of growing interest earnings and should more than offset the gradual absence of additional income from the ECB's targeted longer-term refinancing operations (TLTRO). However, given the prevailing combination of recessionary and inflationary concerns, we also expect a deterioration in the business environment and a rise in credit losses from 2023.

Recent fall in long-term interest rates



Sources: Refinitiv, Helaba Research & Advisory



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