AXIOM
ALTERNATIVE INVESTMENTS

Axiom Alternative Investments

Webinar – European Banks, Q4 2024 results

3/12/2025

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Key takeaways

Strong beats and ambitious targets

- A **strong set of results with an average PPOP beat of 5%** and **2025/2026 consensus earnings up 3/4%.**
- **Fees and Trading** (+5% QoQ, +4% above consensus) drove top line beats.
- The NII outlook is still progressing, with an average revision of 1%.
- **NII was strong in the UK and the Nordics** (+1%-3% QoQ) but started to roll-over in the periphery (-1% QoQ).
- We have seen a **material increase in medium term targets** with several banks aiming for >15% RoTE in 2026/2027.
- Some **RoTE targets are starting to look ambitious**: BAMI >24%, BoI >17%, CBK >15%, Unicaja >14%.

An unexpected combination of multiple bullish catalysts

- US investors **diversifying away from US** names in response to the uncertainties of Donald Trump's policy.
- Hope for an end to the Ukrainian conflict and a display of **European cohesion** against the Trump administration.
- Stabilization in manufacturing, **better economic surprises in Europe** vs. the RoW.
- A massive increase in fiscal spending in Germany, which, by driving up long-term rates, has overshadowed the risks of a return to negative rates and steepened the yield curve.

The sector experienced one of the fastest re-ratings ever recorded in the first quarter of 2025

- **Cheaper Eurozone names** such as Societe Generale, Santander or BBVA benefited the most from the compression in risk premia. Higher quality names such as DNB, SEB, KBC or Credit Agricole underperformed.
- The price-to-book of the sector is now above 1.0x and **has reached its highest post-GFC level**, signalling that the market is **confident that banks can sustainably earn their cost of capital.**
- However, the sector is still trading on 8.5x P/E 2025E, a 35% discount to the wider market, **so it is difficult to argue that it is expensive.**
- No one knows whether this re-rating will continue, but in the meantime, the sector continues to offer a **cash yield** (dividends + share buybacks) of **9%** per year over the next three years, along with prospects for revenue and earnings growth.

Source: Axiom Alternative Investments

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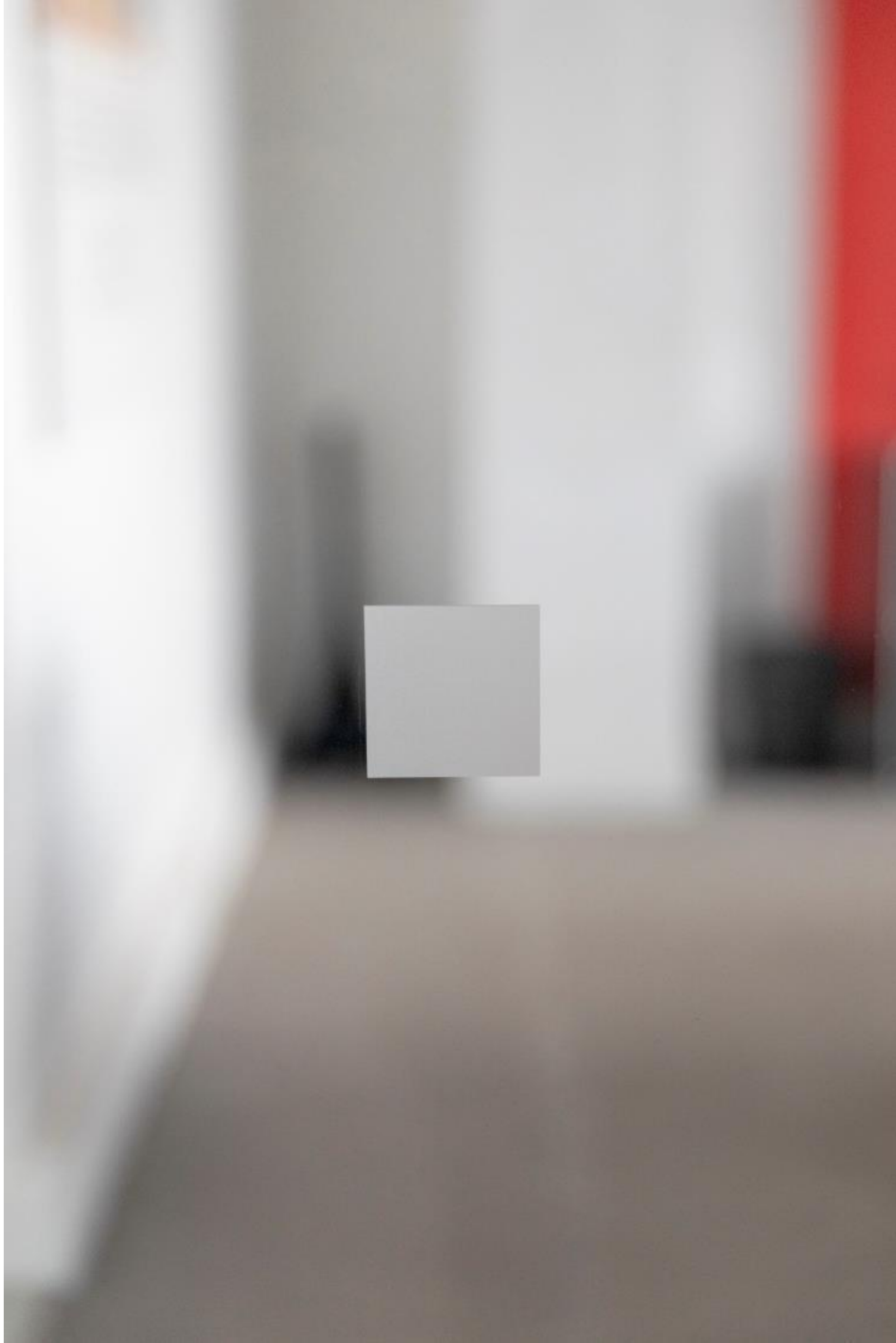
I. **Strong beats, ambitious targets**

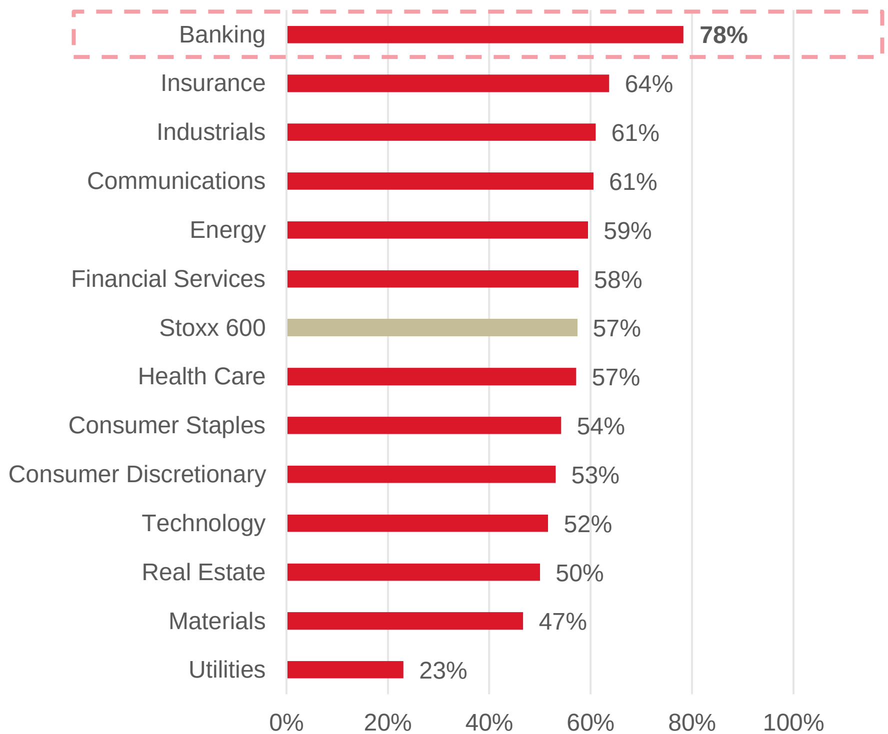
II. Valuations, positioning and catalysts

III. The banking deregulation agenda: US vs. Europe

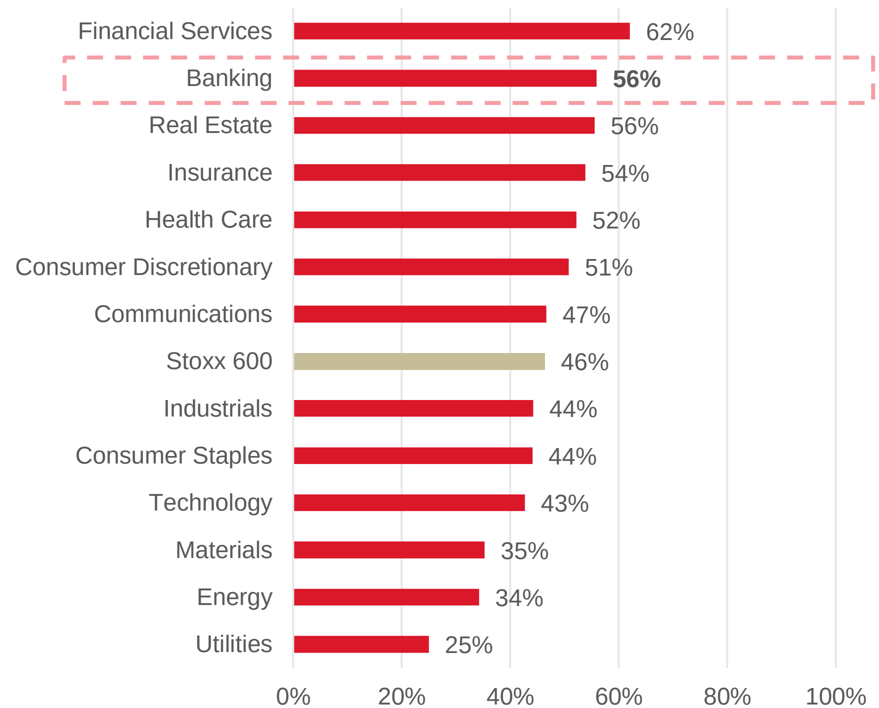


I.1 Banks stood out on revenue strength

Positive sales surprises



Positive earnings surprises

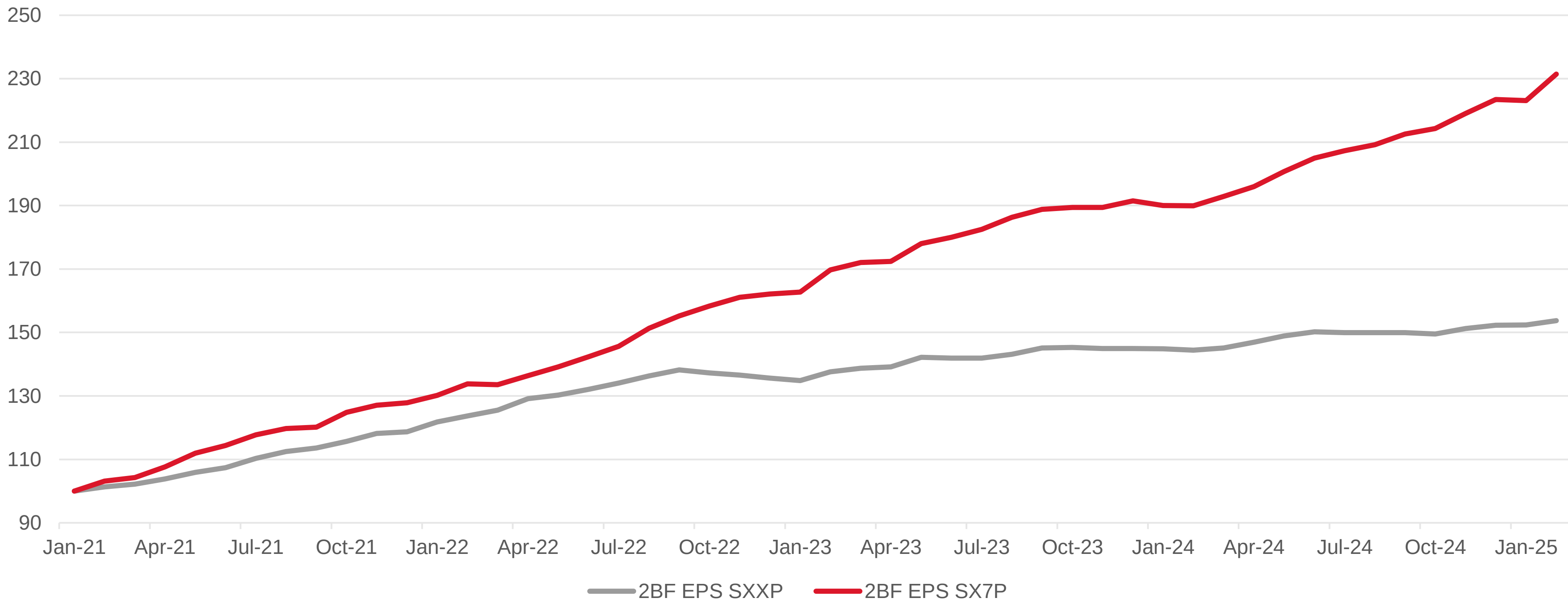


Financials in general continued to display strong revenue growth.

Data as of 28/02/2025 | Source: Axiom Alternative Investments

I.2 The sector’s EPS momentum is intact

Two-year blended EPS expectations: SX7P vs SXXP

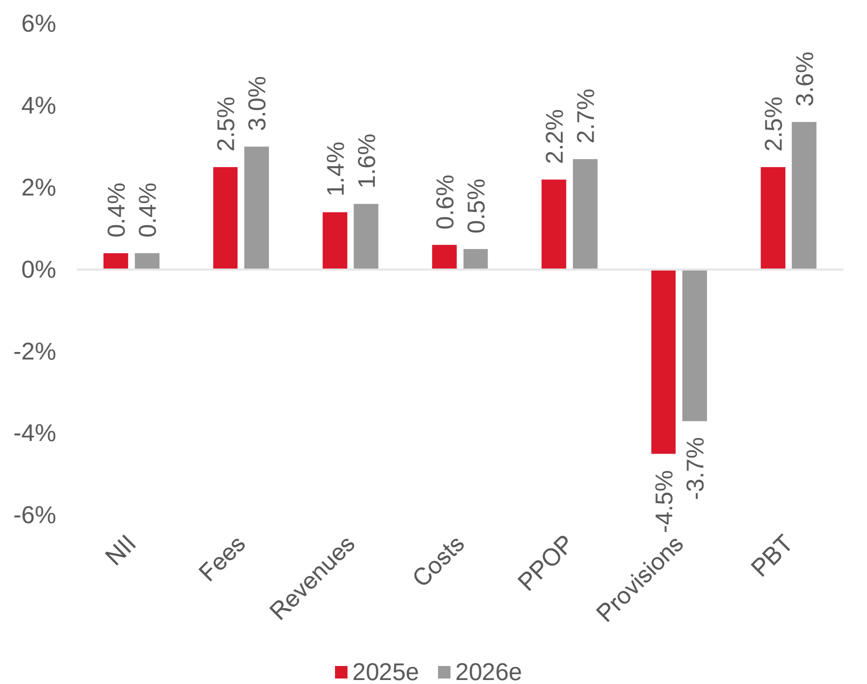


Banks’ earnings momentum has outperformed the wider market for 3 years in a row.

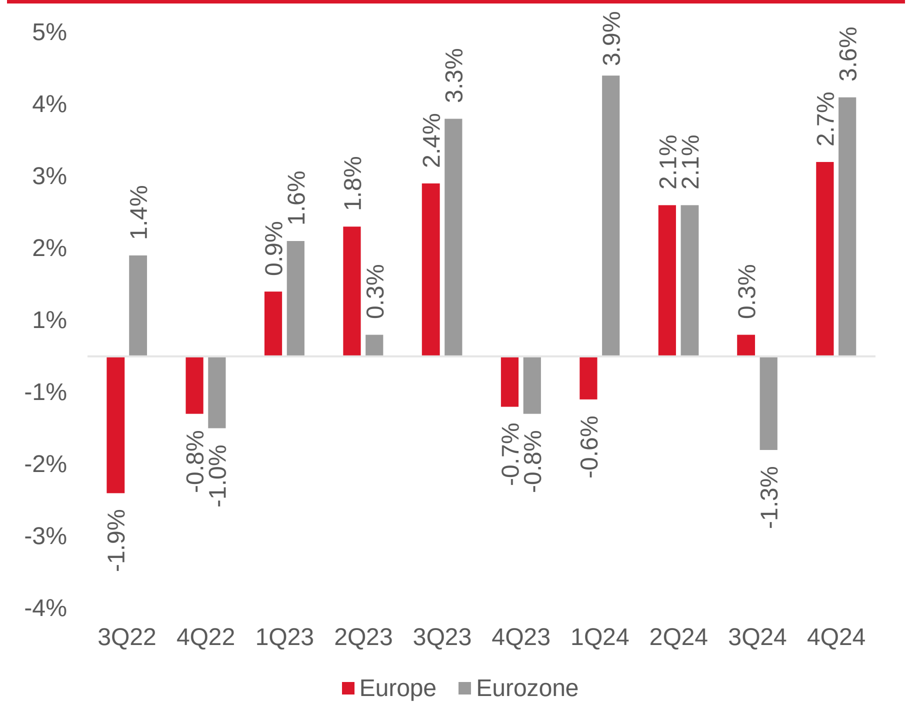
Data as of 28/02/2025 | Source: Axiom Alternative Investments

I.3. Fees and provisioning are driving PBT revisions

European Banks – Consensus Revision Summary



Fees Beats / Misses vs. Consensus

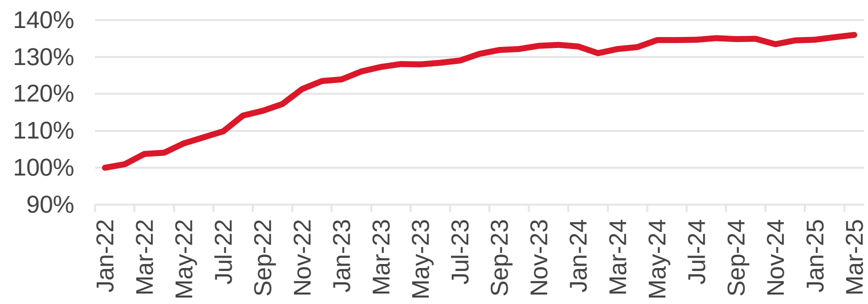


The rare misses were driven by costs and one-off provisions (UK motor, restructuring).

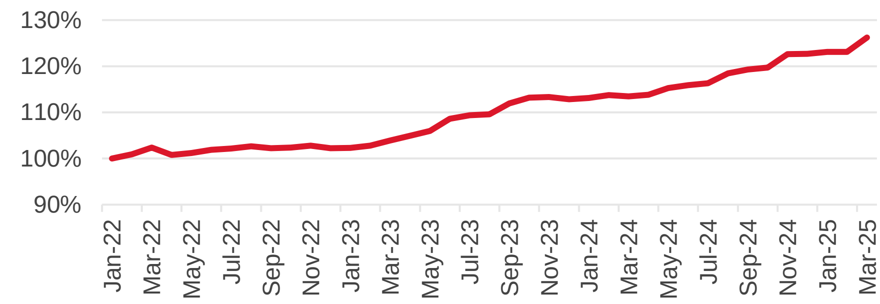
Data as of 28/02/2025 | Source: Axiom Alternative Investments

I.3. Fees and provisioning are driving PBT revisions (cont'd)

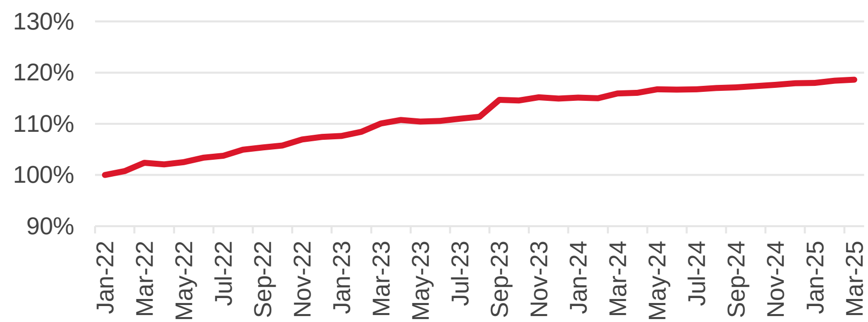
Net Interest Income[1]



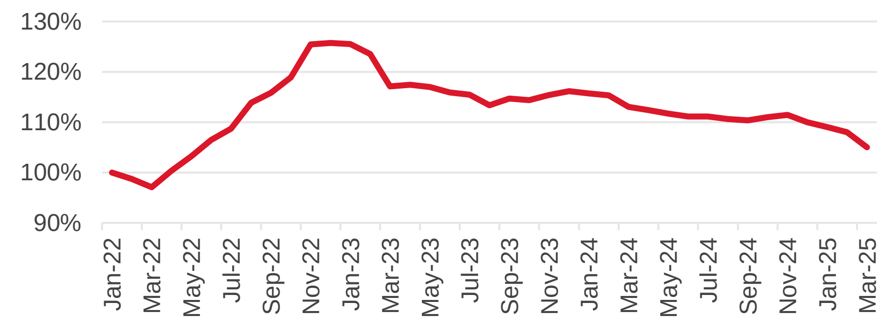
Fees[1]



Costs[1]



Provisions[1]

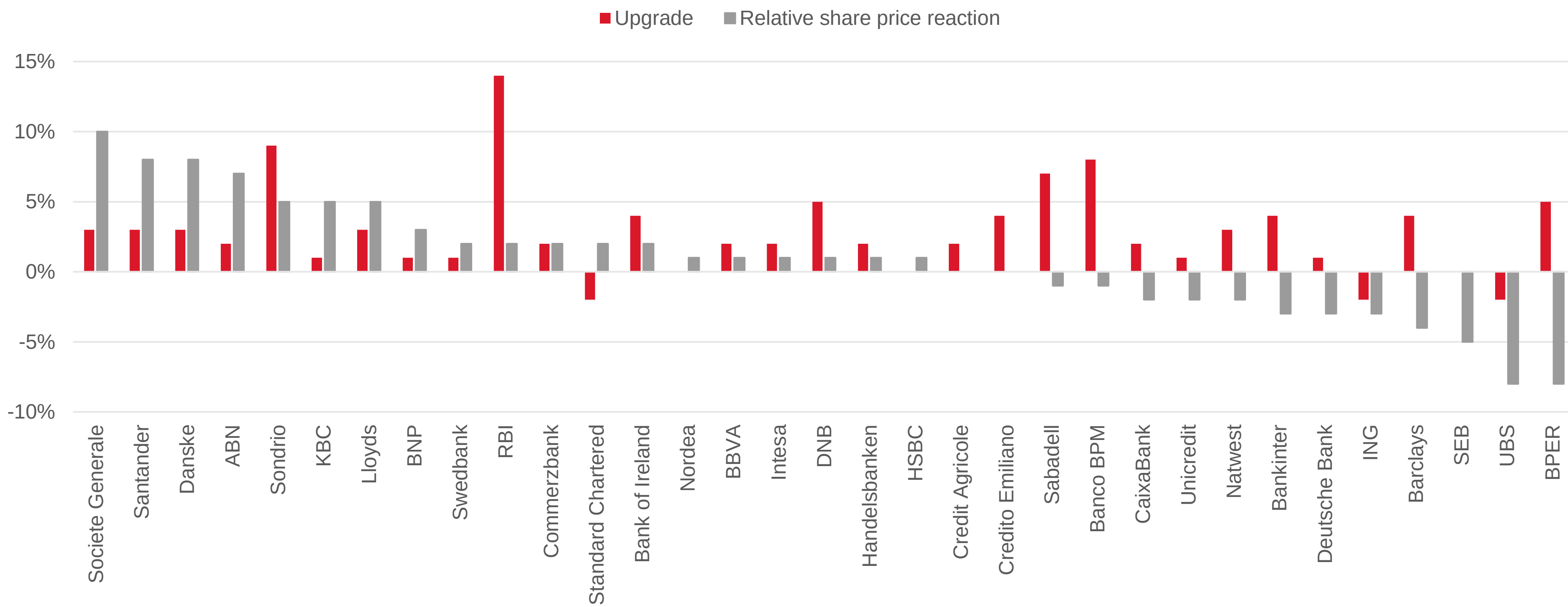


NII expectations have stabilized. Fees are accelerating strongly. The upward trend in costs is reflective of the inflationary environment. Provisions have remained stable in absolute, declining as a percentage of loans.

Data as of 28/02/2025 | Source: Axiom Alternative Investments, Visible Alpha | [1] 2 year forward blended consensus expectations

I.4 A market keen to embrace bullish management guidance

Results day share price reaction versus SX7P



The market rewarded bullish messaging, especially for cheaper names. Significant underperformance was limited to the Swiss names (UBS, BAER) and BPER on the back of an M&A announcement.

Data as of 28/02/2025 | Source: Axiom Alternative Investments

I.5 Societe Generale and Santander recorded the strongest reactions

Societe Generale	
Q4 results	• French retail revenues 1% ahead • CIB 8% ahead • Financial services in-line • Costs were in-line and provisions lower • CET1 13.3% vs. 13.2% expected
Guidance	• Outlook slightly higher than consensus • ROTE >8% in 2025, 9-10% in 2026E • Boursorama net profits > 300m in 2026 • C/I improvement more a 2026 story
Other	• Pro-active management of capital above 13% - "not one basis point more" • FRTB uncertainty: 2026 or 2027? • No reason to believe that SocGen shouldn't benchmark itself against the leading peers in the industry – "except for lack of will or lack of imagination"

Santander	
Q4 results	• NII excl. Argentina 2% higher • Fees 2% below • Costs in line • Better provisions • CET1 12.8% vs. 12.6% expected
Guidance	• €62bn in revenues targeted vs. €61.5bn consensus • C/I <45% in CIB, <40% in consumer
Other	• Commitment to spend €10bn on buybacks between 2025 and 2026, well above €6.3bn consensus • Guided earnings growth to come from CIB and consumer (less exposed to rates) • Strong emphasis on cost control • Reiteration of UK strategic fit

The stocks combined 3 ingredients loved by the market - **low P/Es, capital return promises, bullish management** – which led to strong share price performance despite <5% EPS revisions.

Past performance is not a reliable indicator of future results. It does not constitute an investment recommendation.

Data as of 28/02/2025 | Source: Axiom Alternative Investments

I.6 Barclays and UBS were weaker

Barclays	
Q4 results	• IB 6% ahead on strong equities & advisory • US consumer bank 3% ahead • UK “home market” 4% ahead • Costs missed by 3% • Provisions missed by 6%
Guidance	• New 2025 guidance broadly aligned to consensus, 2026 guidance unchanged • Target 2025 RoTE of 11% • C/I target of 61% in-line
Other	• Swap rates assumptions used by management below market (cautious) • Optimistic tone on outer years: “2026 is not an end point, it is a way-point on the journey” • Cautious assumptions on IBD recovery

UBS	
Q4 results	• Markets 12% above, banking 6% above • Asset management, personal banking slightly weaker • Operating expenses 3% lower • Dividend of US$0.9 13% above consensus • CET1 of 14.3% missed by 10 bps
Guidance	• Recovery of PBT margin of GWM Americas expected in 2026 and 2027 • 2026/2027 targets confirmed, with slightly higher restructuring costs
Other	• Management plans - but did not commit to – to 1bn SBB in H1 and 2bn in H2 • Uncertainty pending capital requirements is delaying returns • 6bn of capital used to address the Holdco double leverage issue

Investors came with high expectations post US bank results. Some disappointment on “in-line guidance”, and a capital twist not identified by the market at UBS, led to underperformance.

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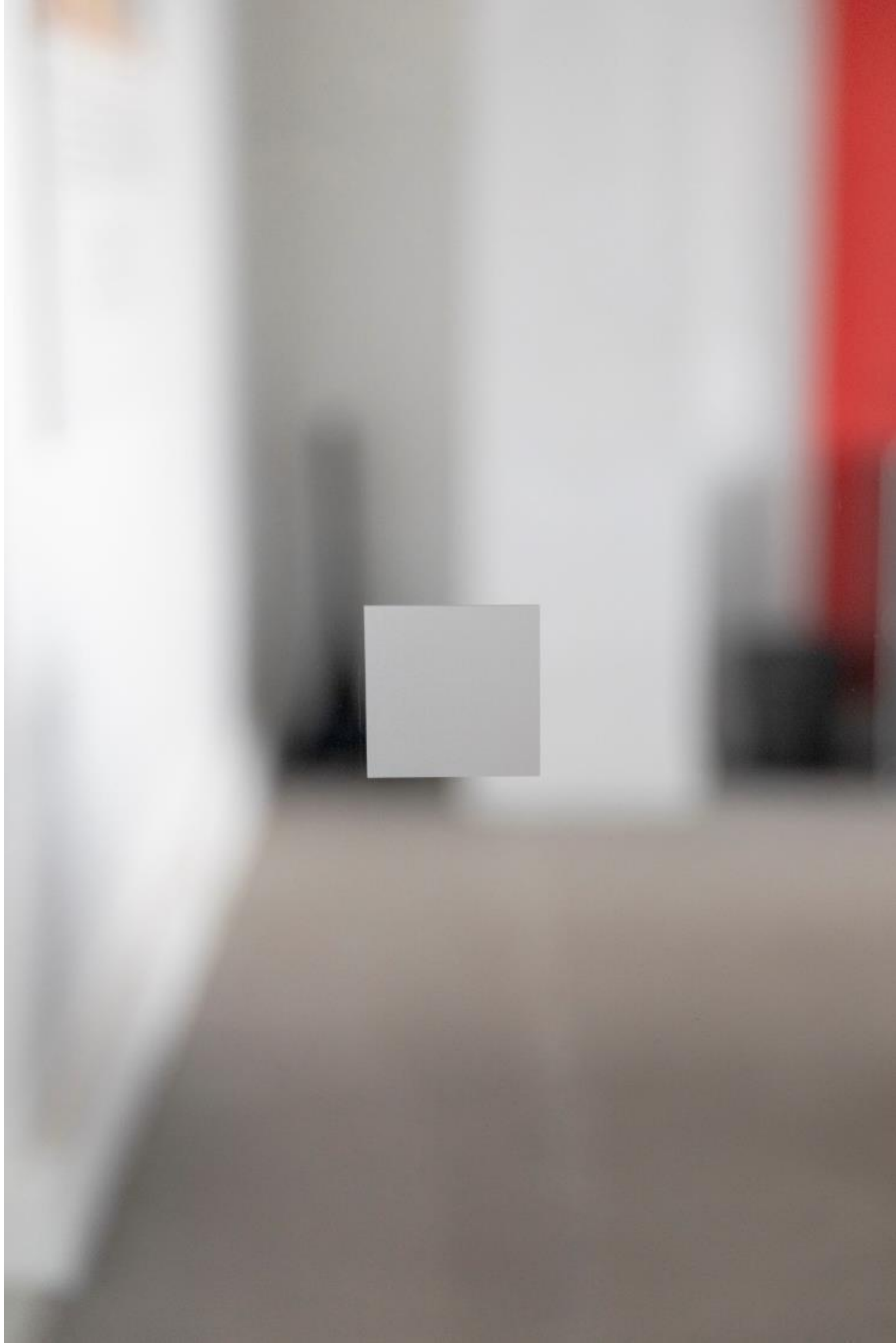
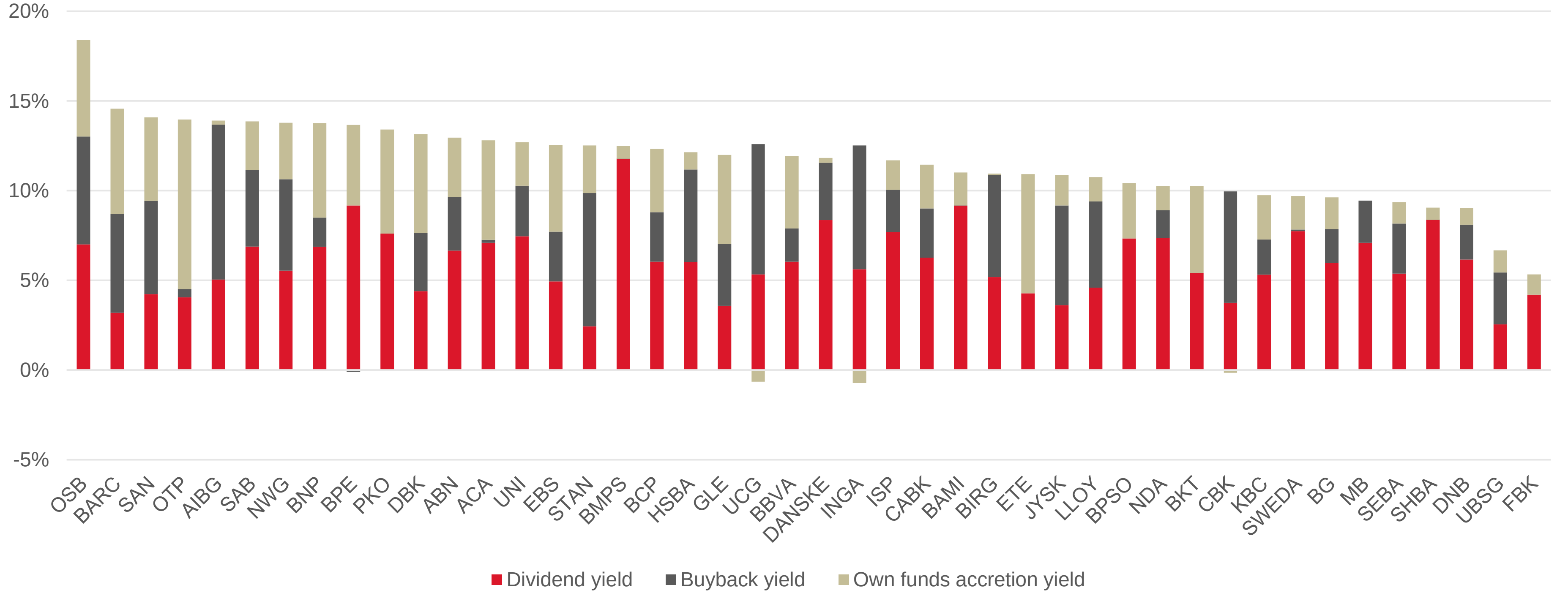


II.1 The carry remains attractive

Carry decomposition (based on FY25-26 consensus estimates)

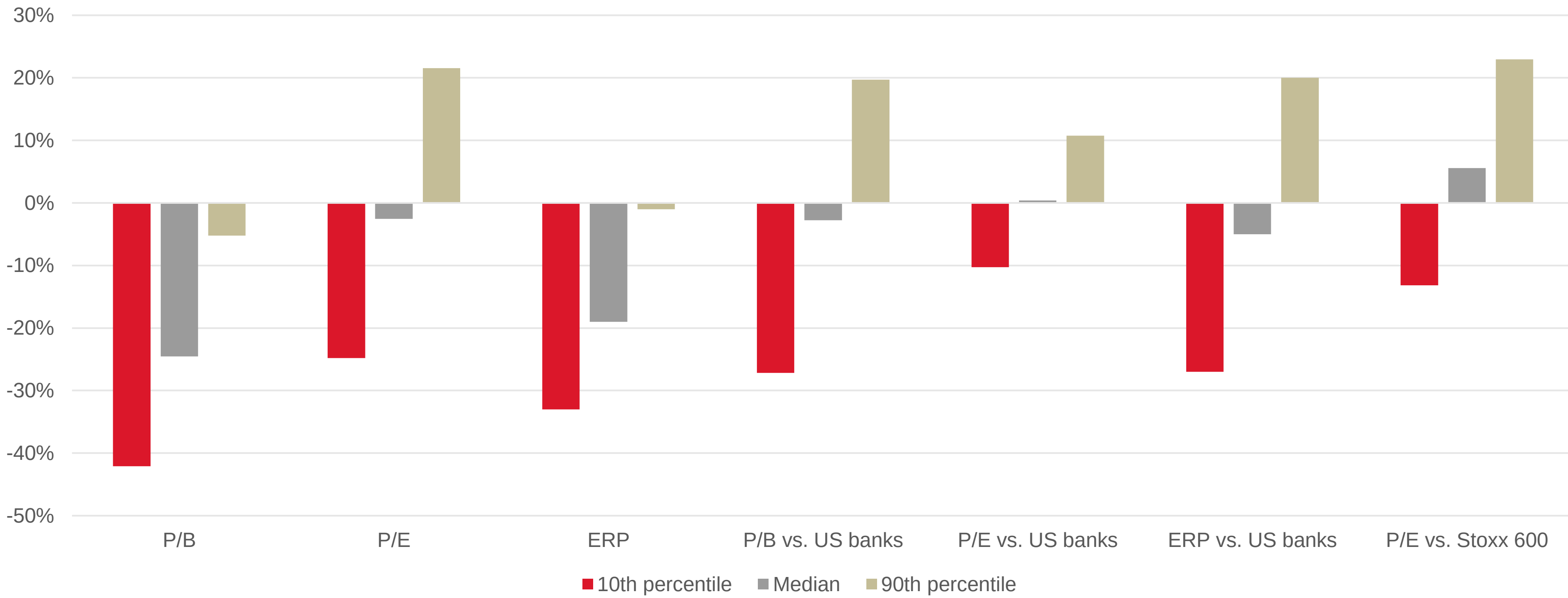


Most banks still offer a double-digit carry. A few banks are using their excess capital to boost payouts beyond 100% of profits (ING, Commerzbank, Unicredit, AIB).

Data as of 28/02/2025 | Source: Axiom Alternative Investments

II.2 The sector is probably around “Warren Buffett fair value” but could climb further absent a macro slowdown

Upside/downside by metric and scenario

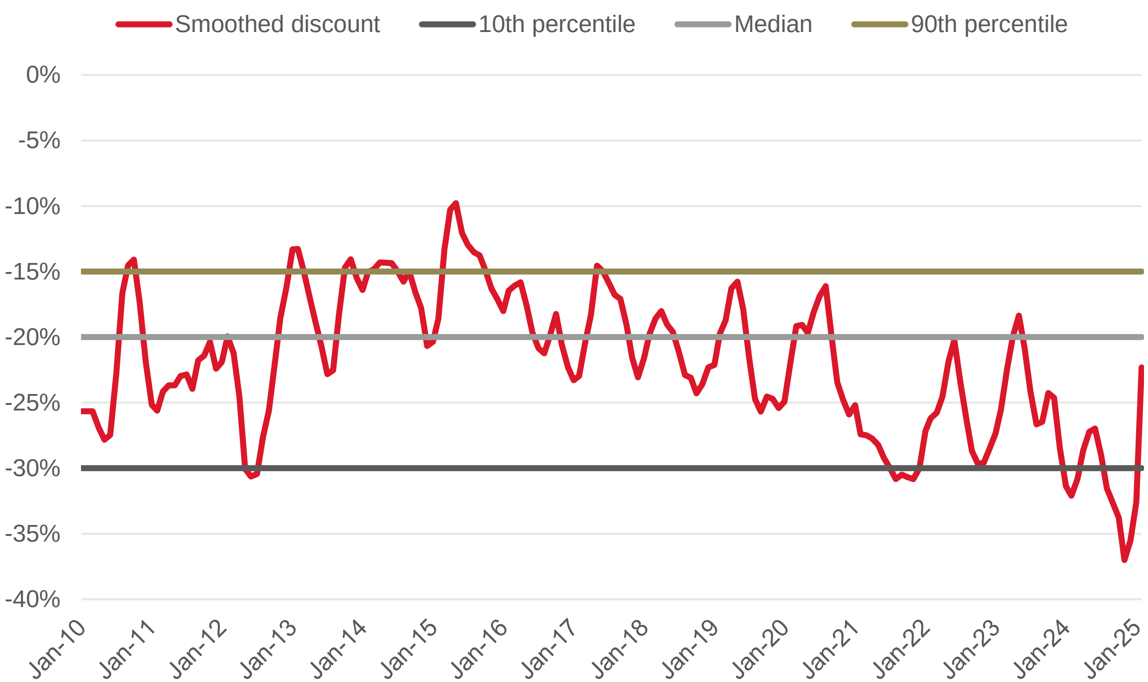


We see a 10% reasonable upside on multiples. A 20% “blue-sky” upside would be conditional on a clear improvement in the European growth picture. This would be on top of a 11%-12% carry (6% dividend + 3% buyback + 3% book value accretion).

Data as of 28/02/2025 | Source: Axiom Alternative Investments

II.3 The discount to US banks could compress further

P/E discount of European banks vs. American banks



Relative strenght

- US banks benefit stronger GDP growth, a clearer deregulatory drive, and structurally higher rates. However, the "risk-free return hurdle" is higher
- Eurozone banks offer more long-term visibility on governance, capital framework
- The quality differential (ROE, C/I, capital returns) has disappeared

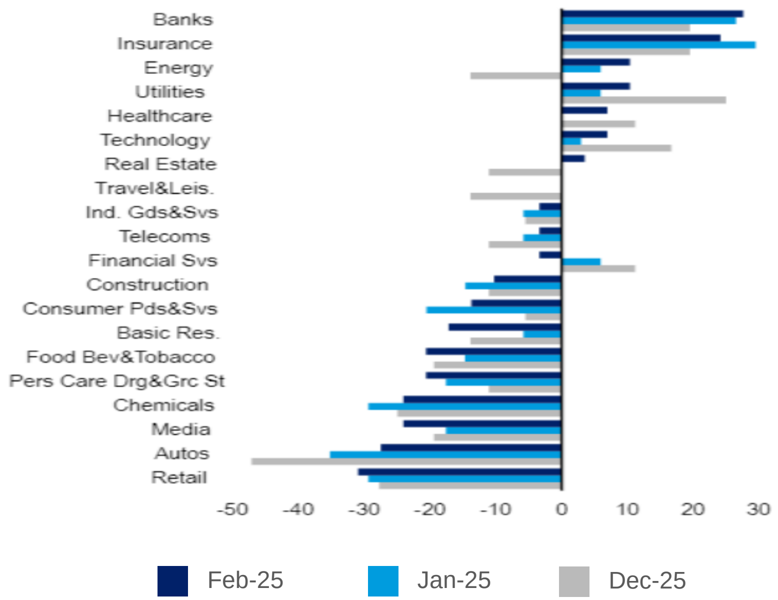
We could see 5% to 20% further multiple compression on a rebound in European growth.

Data as of 28/02/2025 | Source: Axiom Alternative Investments

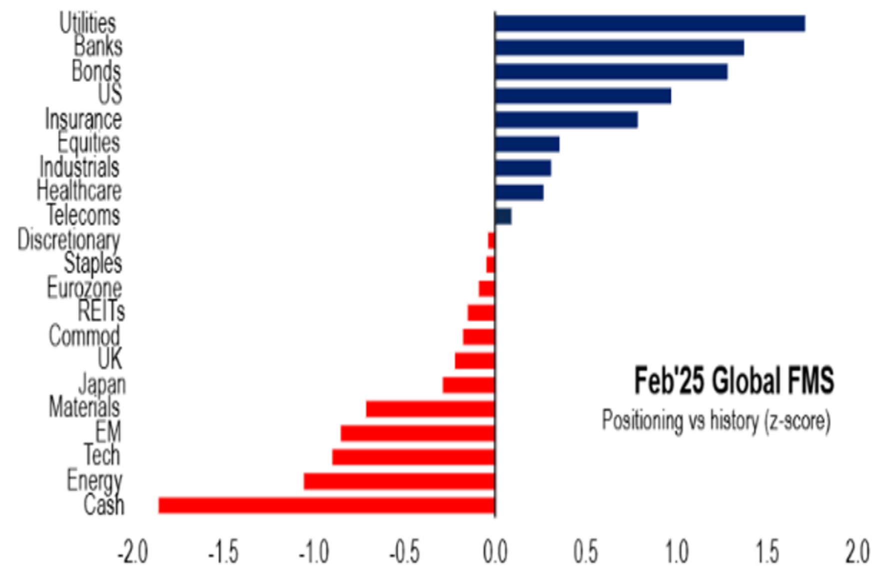
II.4 The buy-side has embraced banks but is still not fully buying the European recovery narrative

Fund manager positioning according to the BoFA survey

European sector positioning (% saying overweight- % saying underweight)



FMS Overweight utilities, banks, bonds & US vs Underweight cash, energy, tech & EM



Recalibration of positioning could persist should international investors gain confidence in the European revival story.

Data as of 28/02/2025 | Source: Axiom Alternative Investments, BofA Global Fund Manager Survey

II.5 A review of the main market drivers

Labor market, wages & interest rates	- High services inflation (+2.7% last 3m annualized, +3.7% YoY) and high wages (+4.4% YoY) are preventing the ECB from cutting rates below the 2%-2.5% threshold for now - Though they are signs of a softening, it is unclear that it will be sufficient to drive inflation at target - Any material slowdown in the wage dynamic would be a warning to sell rate-sensitive names
European PMIs	- European PMIs are still weak. While Germany is improving, France seems to be worsening - There are some encouraging signs: manufacturing PMIs are stabilizing, some leading indicators for the construction industry in Germany are flagging a rebound - It remains to be seen whether they will improve, as the global growth environment seems more difficult
Sovereign risk premia	- The French budget episode is behind us, but the deficit is still there - 7 countries are under an excessive deficit procedure: Belgium, France, Italy, Malta, Poland, Romania and Slovakia - The “Europe first” positioning of the new German chancellor is encouraging
Bank M&A	- Merz has been vocal against Unicredit’s move on Commerzbank during the election campaign - It remains to be seen whether he will soften his tone. A successful transaction would be a bullish sign for the market. - A negative decision on the extension of the Danish compromise for Anima would be a negative sign, although we see it as unlikely
Simplification/ deregulation	- The market will want to see whether regulators follow on their promise to reduce complexity and delays - Progress towards the banking union is elusive so far. Signs from Germany will need to be watched closely. Regulators, for their part, remain strongly convinced of the benefits of the project.

Focus will be on the impact of the German fiscal stimulus, labour market dynamics and pressures on countries with poor deficit trajectories.

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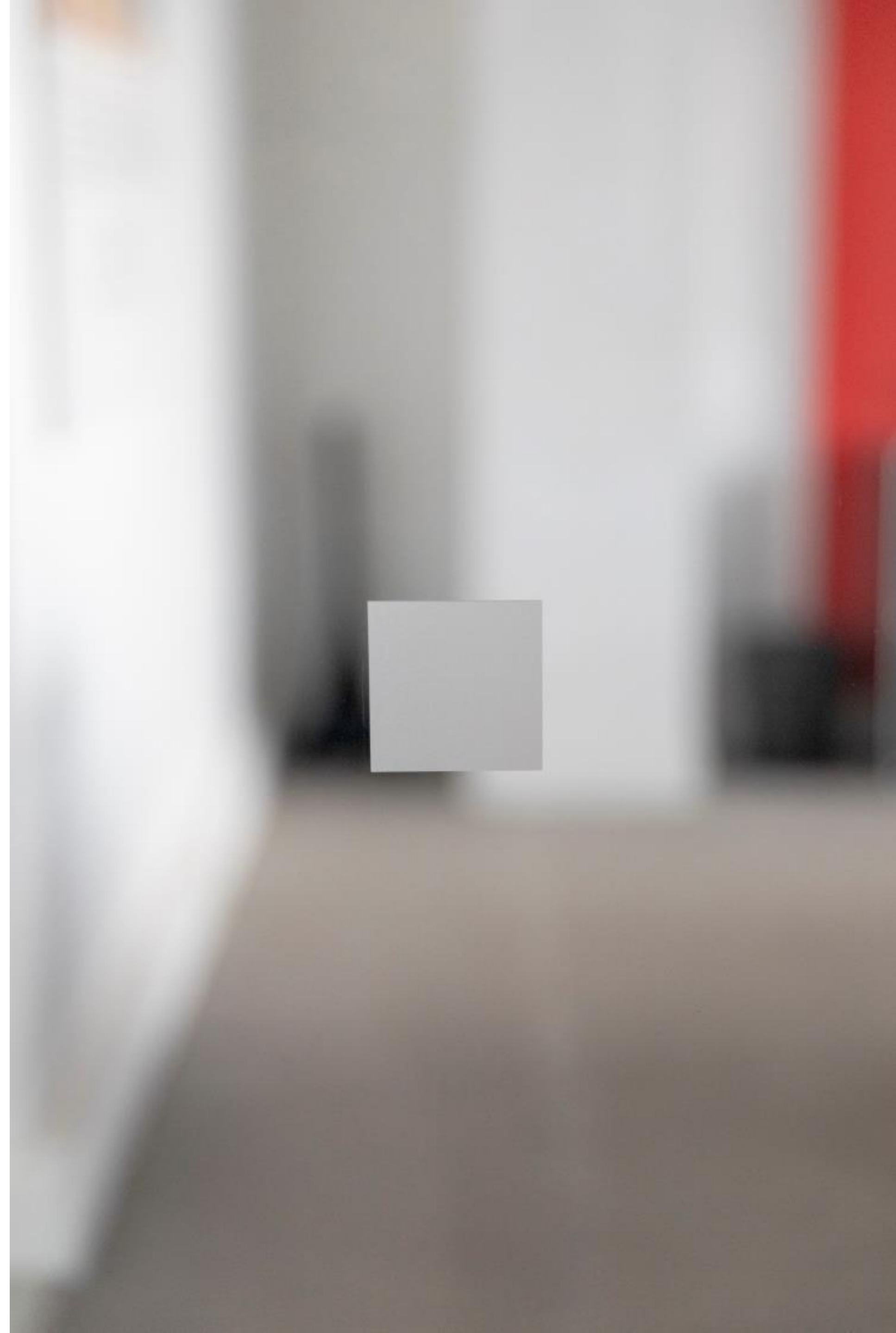

III.1 US: deregulation on multiples fronts

1

Basel III endgame

"When we promote safety and soundness - for example by raising capital requirements - that has an effect on the aggregate lending capacity of the banking system and the availability of credit, particularly for less qualified borrower, we must approach the task of bank regulation with an understanding and appreciation of these tradeoffs"

2

Mid-sized banks

"Essentially, this type of approach to capital "flattens" requirements across large banks. And coupled with other potential reforms to liquidity and funding requirements, this approach could lead to substantial industry consolidation as medium-sized banks weigh the benefits and costs to comply with an aggregate set of requirements more suitable for the largest banks."

3

Non-financial risks

"non-core and non-financial risks —things like IT, operational risk, management, risk management, internal controls, and governance — have been over-emphasized"

4

M&A

"We should also address aspects of the applications process that contribute to delay, including both the approach to competition and the public comment process."

5

AML

"Finally, I want to address the unintended consequences of anti-money laundering requirements in the provision of banking services. I think we can agree that fighting money laundering, terrorist financing, and other illicit activities is not only a statutory responsibility of the banking system but it also serves important public policy goals. But while the regulatory framework prescribing how banks fulfill this role is not within the Federal Reserve's responsibilities, it is important to consider how these requirements affect the ability of banks to serve customers. "

Fed Governor Michelle Bowman, widely seen as the top candidate to replace Michael Barr as the vice chair for supervision, is a firm believer in the growth-regulation trade-off.

Data as of 28/02/2025 | Source: Axiom Alternative Investments

III.2 Europe: regulators keen on simplification, but wary on deregulation

Capital requirements	Simplification	Market union
• Level playing field: **FRTB pushed back indefinitely?** • 2025 ECB stress tests: on a Basel 3 full-loaded basis • ICAAP/ILAAP: on a Basel 3 full-loaded basis • P2R: no adjustment for the output floor	• Securitization **fast-track** • Faster approvals to changes to internal models • Review of technical standards / **level 2 regulations** • Adjustments to sustainability data requirements	• Capital markets union: securitizations, listing rules, SME risk factors, **harmonization of insolvency rules**, withholding tax procedures • CMDI: common insolvency ranking architecture, deposits hierarchy • EDIS: common deposit insurance scheme

Claudia Buch, head of the SSM: *"Relaxing regulation and supervision with the **misguided hope of promoting growth or competitiveness** might be a temptation. However, such a policy shift would have **severe unintended consequences.**"*

Villeroy de Galhau: *"European simplification keeps the objectives of financial stability and the climate transition; **it does not aim to decrease demands but to decrease the complexity**"*

While European central bankers and regulators are keen to reduce complexity and « red tape », they are generally not in favor of reducing capital requirements.

Data as of 28/02/2025 | Source: Axiom Alternative Investments

III.3 Politicians, however, are more willing to push against regulators

« *Sharing a unique common goal : reversing Europe's declining competitiveness* »

Ministero dell'Economia e delle Finanze

Dipartimento del Tesoro
Direzione V
Ufficio II

MINISTÈRE DE L'ÉCONOMIE, DES FINANCES ET DE LA SOUVERAINETÉ INDUSTRIELLE ET NUMÉRIQUE

Direction générale du Trésor

Bundesministerium der Finanzen

To **John Berrigan**
European Commission
Directorate-General for Financial Stability,
Financial Services and Capital Markets Union

and

c.c. **Patricia Reilly**
Head of Cabinet to Commissioner Mairead McGuinness
European Commission
Directorate-General for Financial Stability,
Financial Services and Capital Markets Union

CRR (*Capital Requirement Regulation*) review timetable - 2028:

Request from the German, Italian and French Finance Ministries to the Commission:

- On the resilience of the sector (financial stability, anti-money laundering, consumer protection, etc.): « ***…we should refrain from launching new large-scale initiatives in this field in the short to medium term.*** »
- «*…it is equally important to put stronger emphasis on the* ***competitiveness of the financial sector, particularly banking,*** *and its capacity to finance the economy.* »

6 topics: competitiveness of investment banking (FRTB), real estate financing, securitisation (financing the economy), climate risk (more realistic approach), macroprudential rules (application to be considered considering the competitiveness of the sector), improving the functioning of banking supervision.

The competitiveness of the sector is at the heart of political concerns. Simplification and deregulation are a core part of the CDU/CSU manifesto. We expect that banks will have a stronger negotiating hand against regulators in the future.

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Q&A

Thank you for attending the Axiom Alternative Investments webinar.

See you next quarter.