Axiom Alternative Investments

Webinar – European Banks, Q1 2025 results

05/21/2025

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This document was prepared by Axiom Alternative Investments Ltd.

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Key takeaways

All P&L lines contributed to upgraded expectations

- A **strong set of results with an average pre-provision operating profits (PPOP) beat of 5%** and **2025/2026 consensus earnings up ~2%.**
- **Fees and Trading** (+3% QoQ, +2% above consensus) were helped by strong inflows and client activity.
- **NII was slightly better** (-1% QoQ, +1% above consensus), with significant regional dispersions (+3-4% QoQ at ING/BNP, +0-2% in the UK, -3% QoQ in the periphery). NII in the Nordics was generally much **better than feared thanks to pricing discipline** (+2% upgrades).
- **Costs were down 5% QoQ and 1% better than consensus** despite higher variable compensation at investment banks
- **Capital** was robust, stable QoQ **as banks absorbed the day-1 Basel IV impacts**. Handelsbanken **released its additional capital buffer** above the long-term target range (100-300bps). SocGen surprised to the upside with a 20 bps capital beat.

A confident tone despite the macro uncertainty

- Guidance was largely upheld, with upside flagged in case of a benign macro environment.
- Banks came across as **more optimistic on NII**, **flagging tailwinds from steeper curves.**
- Confidence in the fees outlook was sustained by the **market recovery post Liberation day** and the **strong start to Q2 in trading**. On IB, management teams commented that **pipelines remain healthy and building**, with revenues merely delayed.
- SocGen, Deutsche, Intesa and the Nordics improved their cost outlook.
- Ever-bullish Deutsche Bank CEO went as far as to say that **"tariff-related frictions could eventually represent upside potential"**

Inflecting volumes, resilient margins and payouts to support a further normalization of valuations

- Having fully recovered from the April sell-off, the sector is trading on 8.4x P/E 25-26E, a 35% discount to the wider market (vs. a 30% average post-GFC discount)
- The sector offers a **cash yield** (dividends + share buybacks) of **9%** per year over the next three years
- **The strength of bank earnings over the past 19 consecutive quarters should continue to narrow the sector's discount relative to the broader market.**

Data as of 13/05/2025 | Source: Axiom Alternative Investments

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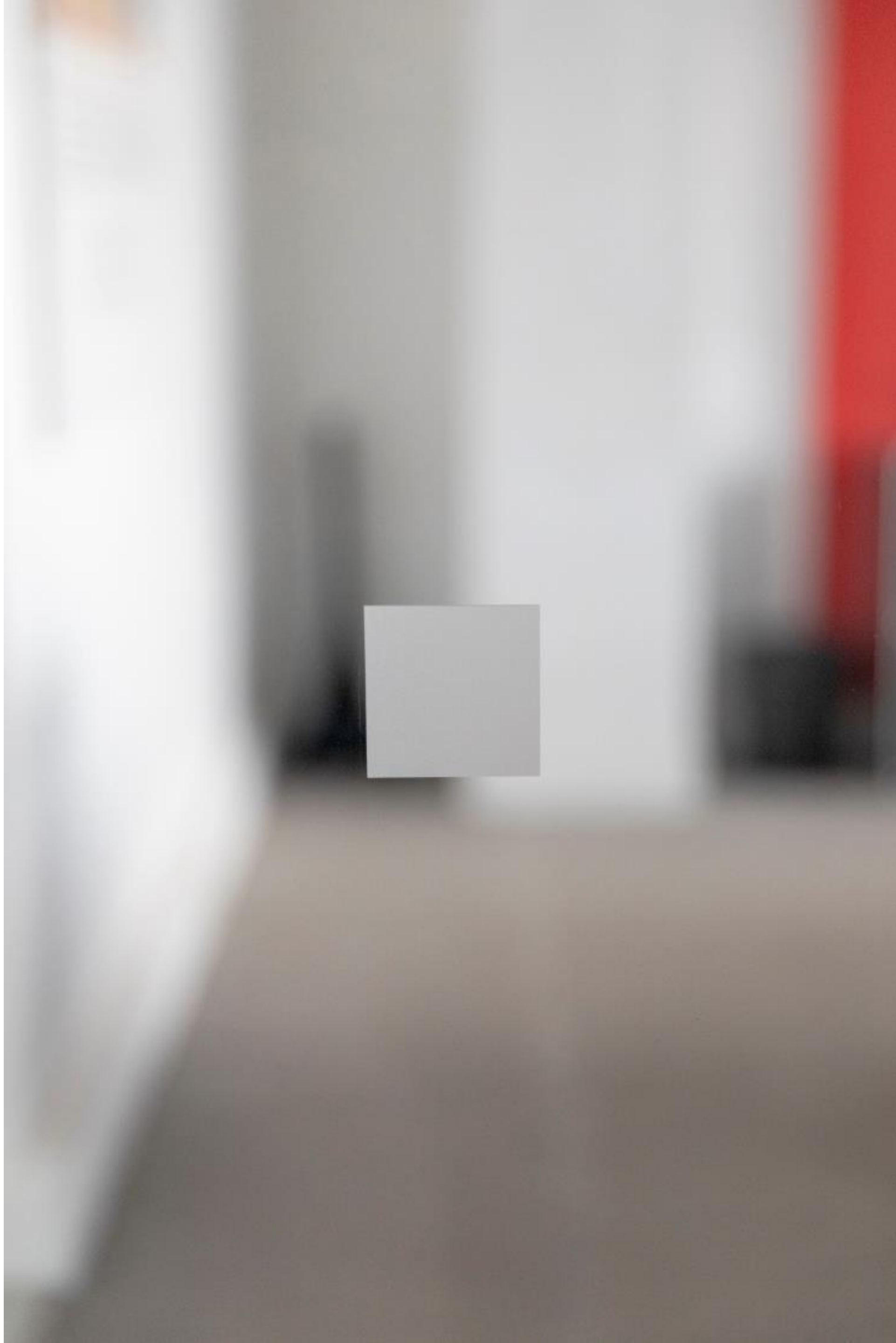
I. Q1 2025: another win for the sector

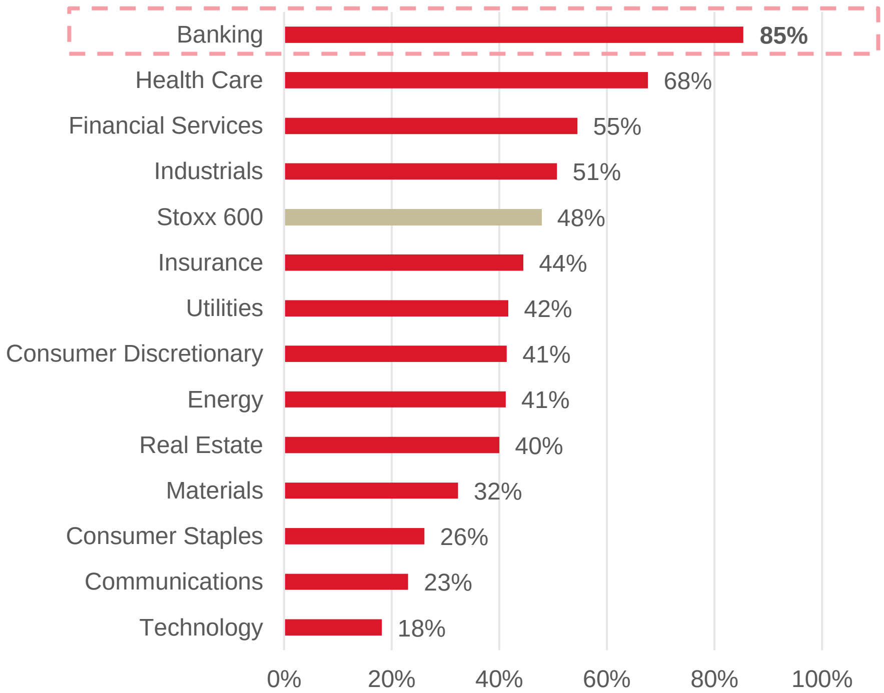
II. A solid outlook for revenues and capital returns

III. Assessing the implications of Trump policies

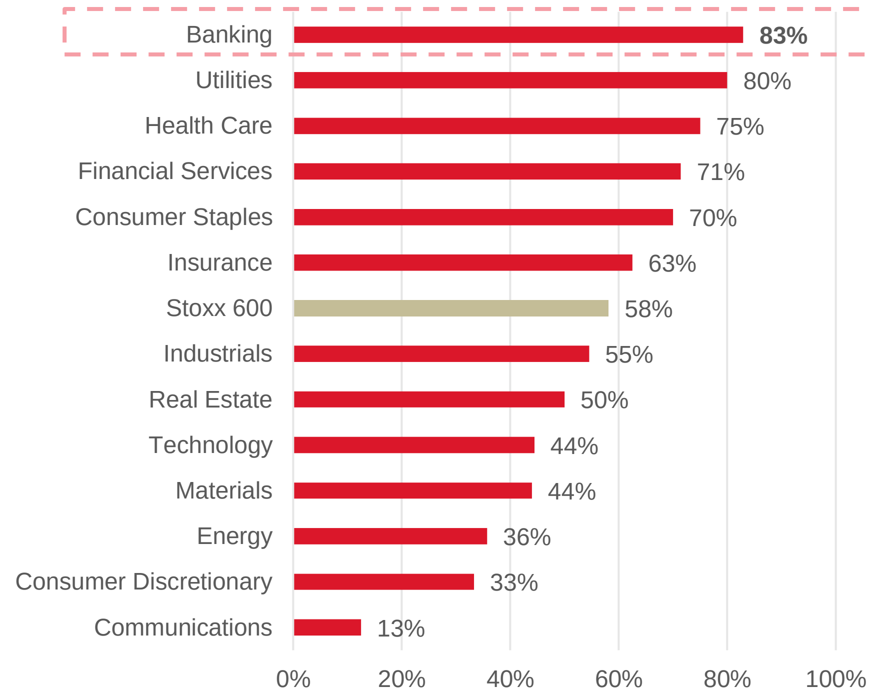


I.1 Most banks surprised positively

Positive sales surprises



Positive earnings surprises

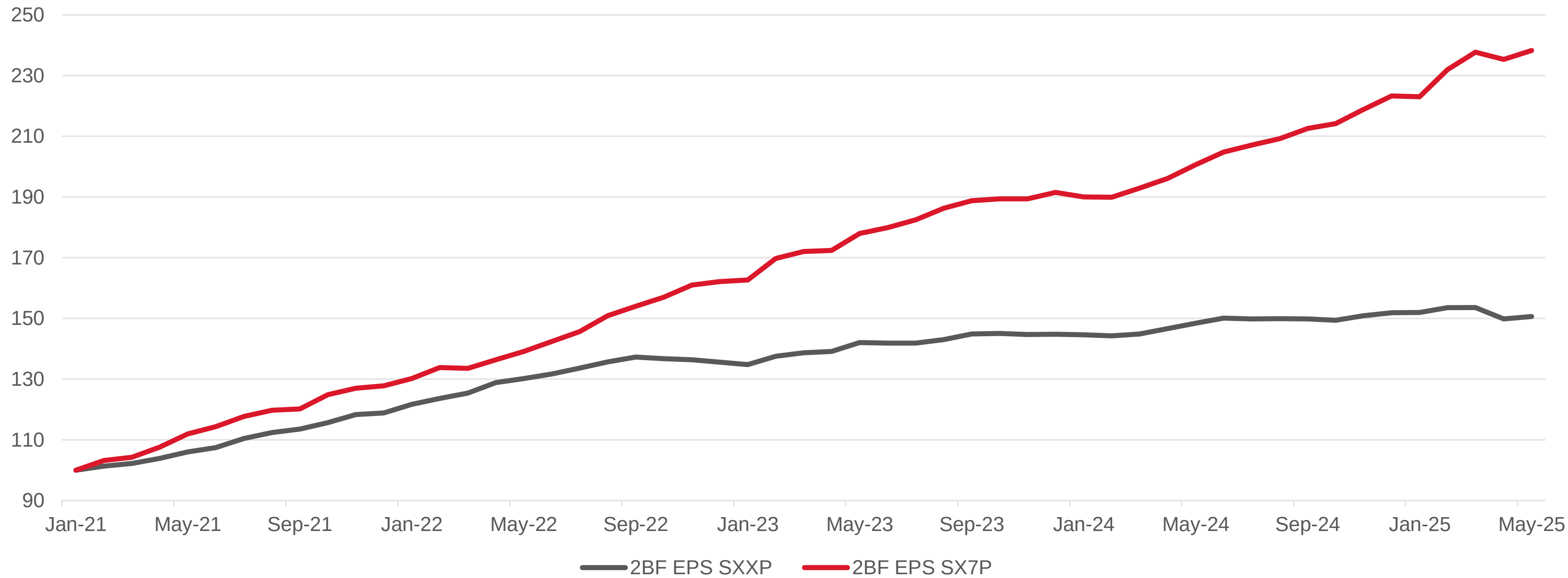


Financials continued to display better trends than the broader market.

Data as of 13/05/2025 | Source: Axiom Alternative Investments

I.2 EPS expectations drifted higher

Two-year rolling EPS expectations: SX7P vs SXXP

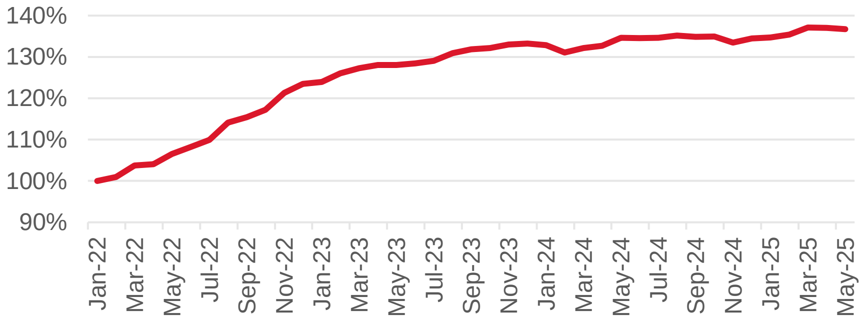


Banks’ earnings expectations continue to outpace the broader market.

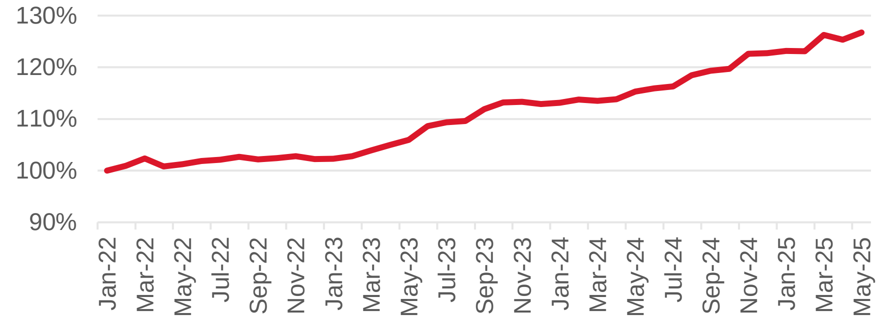
Data as of 13/05/2025 | Source: Axiom Alternative Investments

I.3. All P&L lines contributed to upgraded expectations

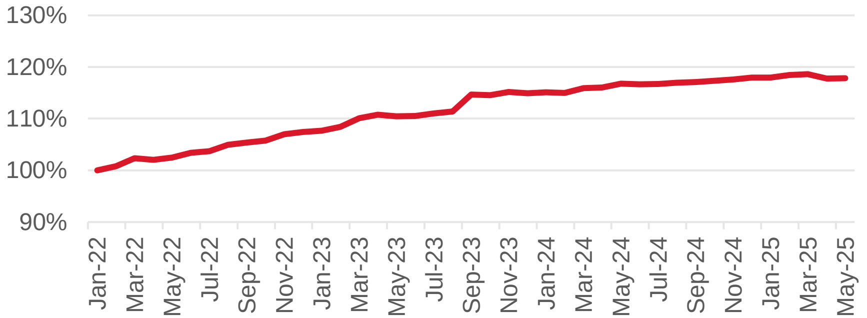
Net Interest Income[1]



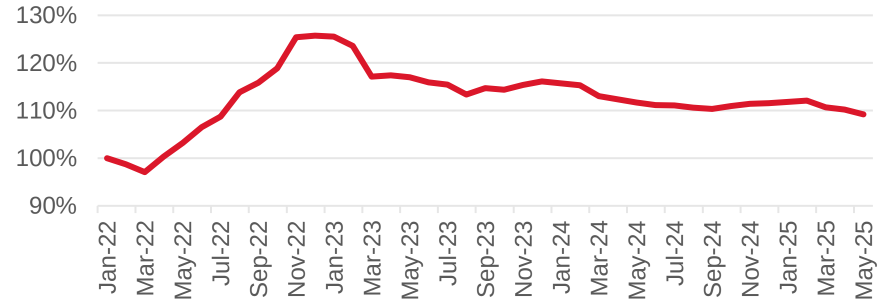
Fees[1]



Costs[1]



Provisions[1]



NII has stabilized at a high plateau while fees are growing at speed. Good cost management and asset quality have amplified the transmission of the strong revenue trends to the bottom line.

Data as of 13/05/2025 | Source: Axiom Alternative Investments, Visible Alpha | [1] 2 year forward blended consensus expectations

I.4 Management guidance has been confirmed or upgraded

NII	Fees	Costs, asset quality and capital
○ Volume growth: • (+) Deposits • (+) Housing market, mortgages • (-) Corporates in “wait and see mode” ○ Funding costs: • (+) Stabilization in the deposit mix / “terming in” • (+) Lower market funding costs ○ Asset yields: • (+) Steeper curves • (+) Spread on ALCO[1] portfolio • (-) Competition in lending	○ CIB: • (+) Strong start to Q2 • (+) Pipelines still building • (-) Lower USD/EUR ○ Wealth management: • (+) Continued strength in inflows • (+) Potential to upgrade guidance is market recovery is sustainable • (-) Clients’ “trading fatigue” ○ Other: • (+) G/L on securities at FV • (+) Demand for protection • (+) Used-car prices	○ Costs: • (+) Higher salaries offset by natural attrition/FTE reductions • (+) Lower fees for the resolution fund ○ Asset quality: • (+) Guidance still stands despite weaker growth outlook • (+) House prices and wages • (-) Lower overlay releases ○ Capital: • (+) Interim dividends generalised • (+) Lower Basel 4 impact • (-) Danish compromise

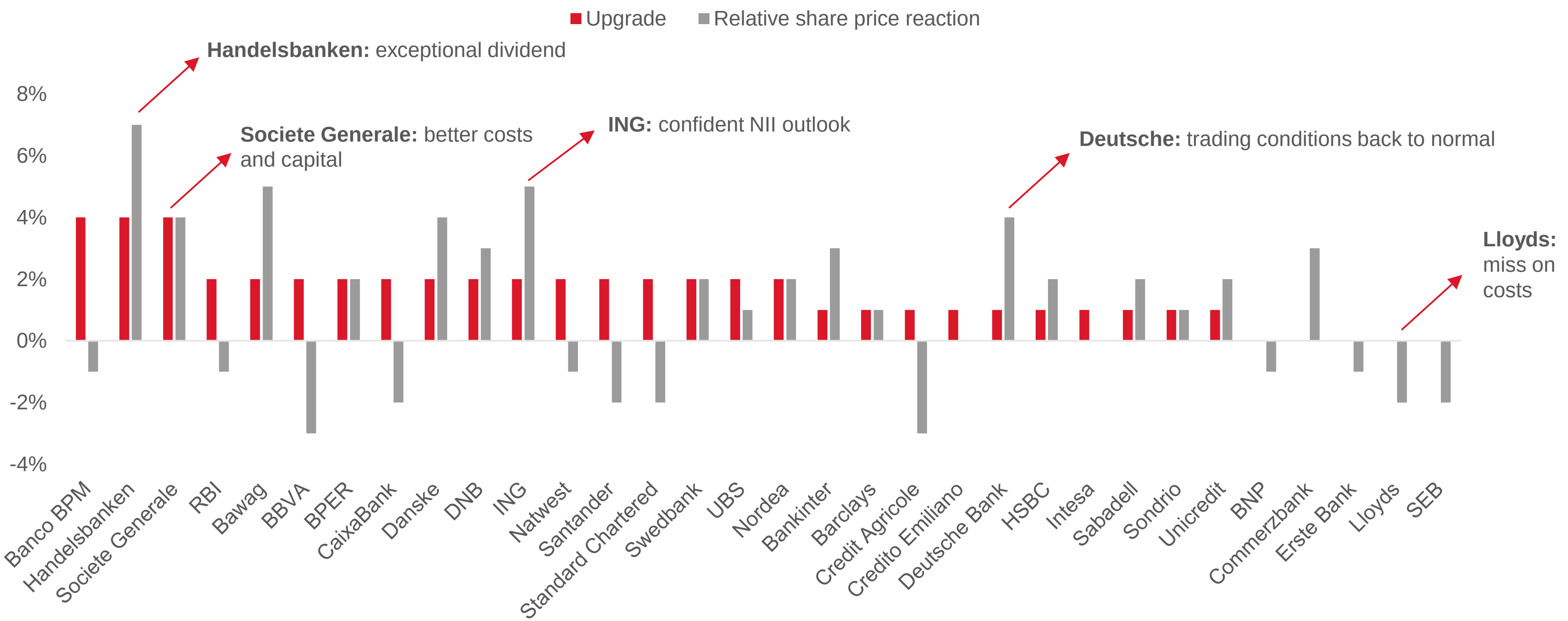
Christian Sewing, DB CEO: *“Our Global House Bank business model and four strong businesses position us very well to support clients through these unsettled times. And already, since the start of the second quarter, we are seeing clients increasingly seek our expertise and advice.”*

Management teams generally saw Trump tariffs as a corporate loan growth story rather than an asset quality story. They often signalled guidance upgrade potential later in the year on the back of steeper curves and higher fees.

Data as of 13/05/2025 | Source: Axiom Alternative Investments | [1] Asset-Liability Committee

I.5 Results day market reaction was generally rational

Results day share price reaction versus the SX7P



Dispersion in results' day performance was lower than the previous earnings season. Capital prints were closely monitored – with both Societe Generale and Handelsbanken being rewarded for higher future distributions.

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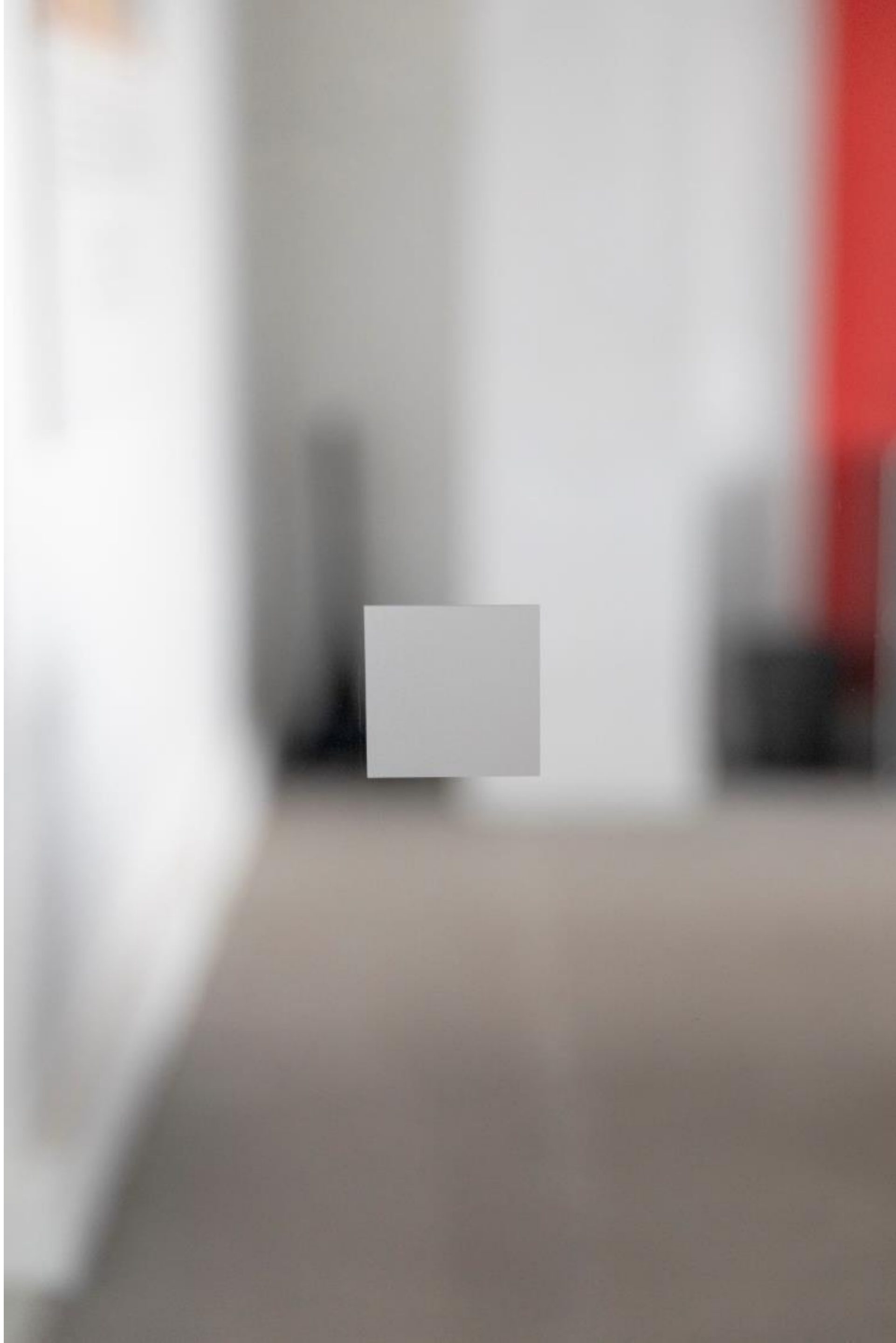
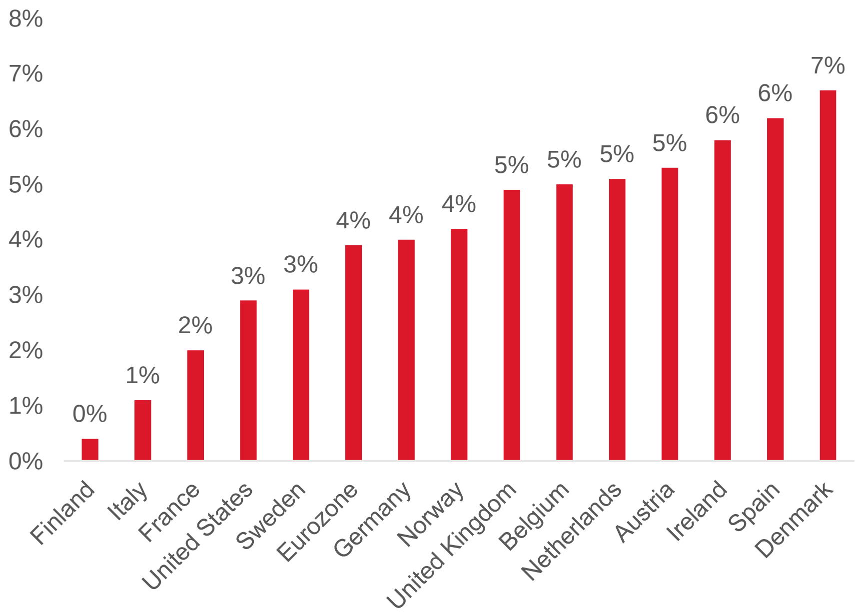


II.1 Deposit and AuM growth is inflecting

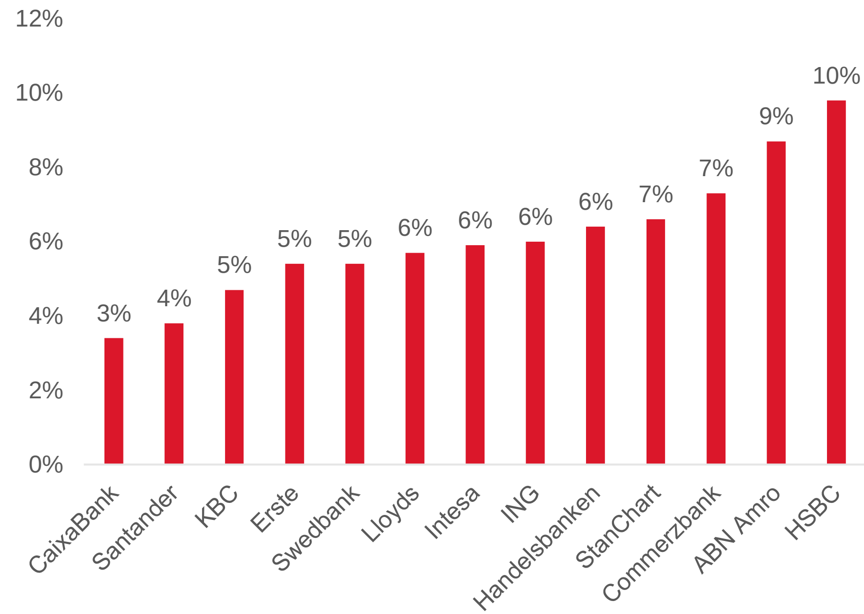
Deposit growth is back to normalised levels and accelerating

Total deposit growth (% YoY)



Fees and commissions are benefiting from growing retail and wealth flows

Fees and commissions (% 2025FY E / 2024FY)



High saving rates combined with improved risk appetite and lower government retail bond issues have led to an acceleration in deposit and AuM growth. In France, life insurance savings are outpacing deposits.

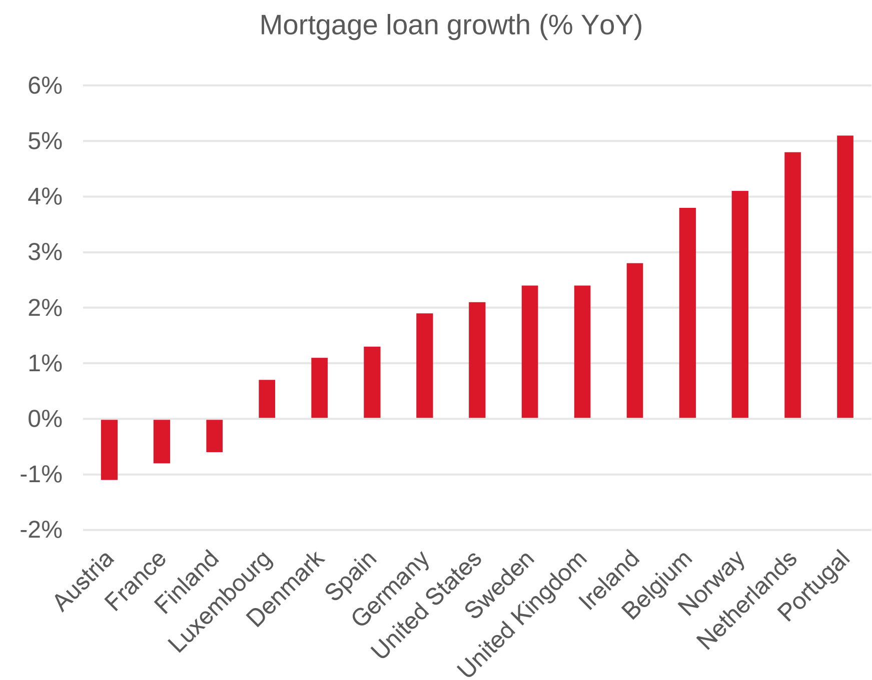
Data as of 28/02/2025 | Source: Axiom Alternative Investments, ECB, Bloomberg

II.2 Housing markets are recovering

House prices are back to peak in many countries

Country	Mortgage Originations YTD ('25 vs 24)	House prices vs Recent Peak	Front book mortgage spreads
Netherlands	137%	0%	1,36%
Norway	n/a	0%	1,15%
Eurozone	49%	0%	n/a
Belgium	57%	0%	0,90%
Denmark	55%	-1%	2,18%
Ireland	33%	0%	1,24%
Italy	49%	0%	0,72%
Sweden	53%	-2%	0,94%
Germany	34%	-4%	1,17%
Spain	22%	0%	0,48%
Portugal	2%	0%	0,71%
Austria	11%	-5%	1,00%
France	38%	-7%	0,67%
United Kingdom	22%	-1%	0,55%
Finland	6%	-8%	0,79%

Mortgage books are growing again

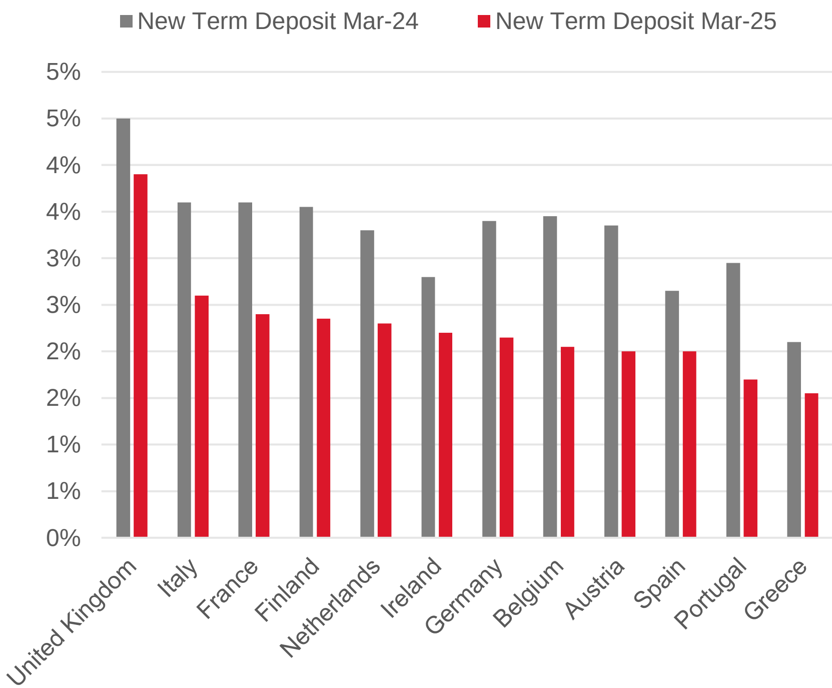


A sustained rebound in residential real estate would be supportive for loan volumes, origination commissions, asset quality and client confidence.

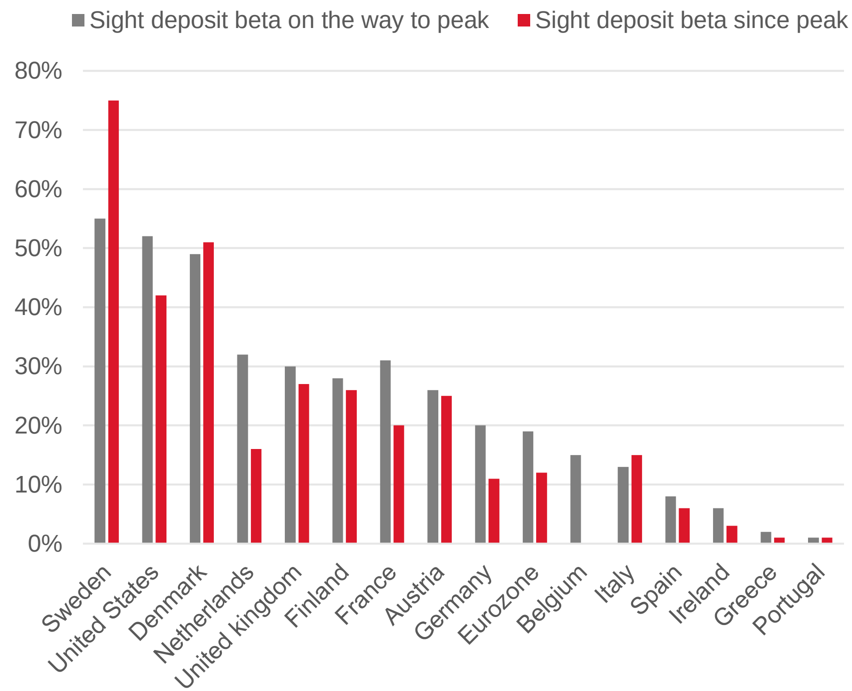
Data as of 13/05/2025 | Source: Axiom Alternative Investments, ECB, Autonomous

II.3 Banks are passing rate cuts to depositors

Term deposit pricing



Sight deposit betas on the way up and on the way down



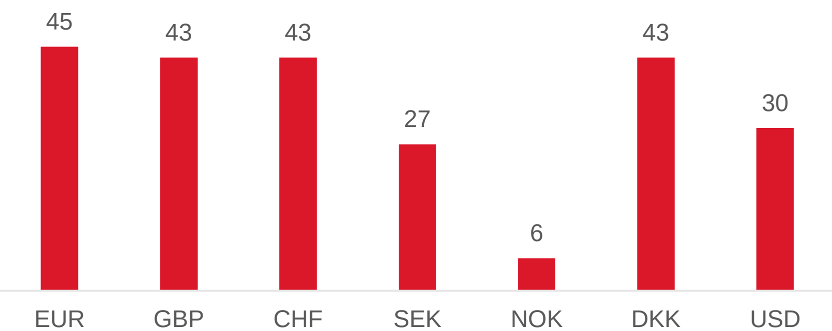
We expect banks to be able to maintain deposit margins as long as ECB rates remain above 1.5%

Data as of 13/05/2025 | Source: Axiom Alternative Investments, ECB, Autonomous, Mediobanca

II.4 Net interest margins are getting a boost from steeper curves and wider asset swap spreads

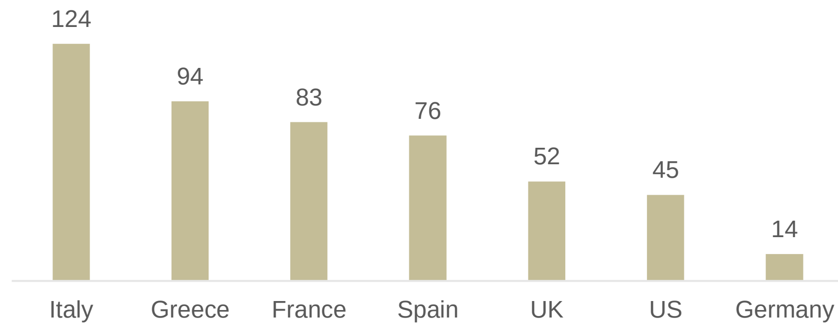
Steeper curves

2Y-10Y steepening YTD (bps)



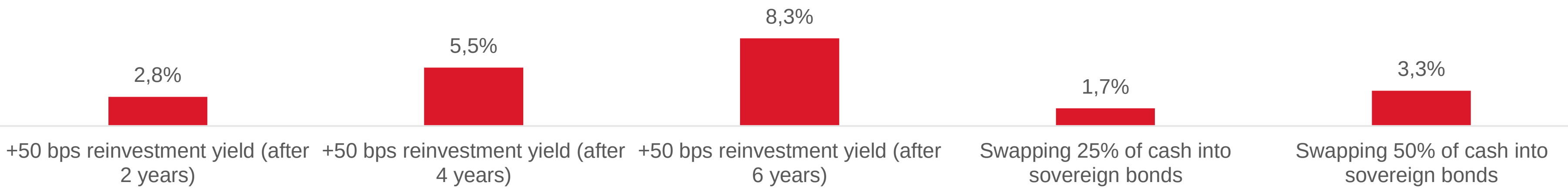
Attractive swap spreads

Swap spread on 10Y sovereign bonds



Benefits from rolling hedges at a higher rate and swapping cash for bonds

Impact from interest rate scenarios (% net income)

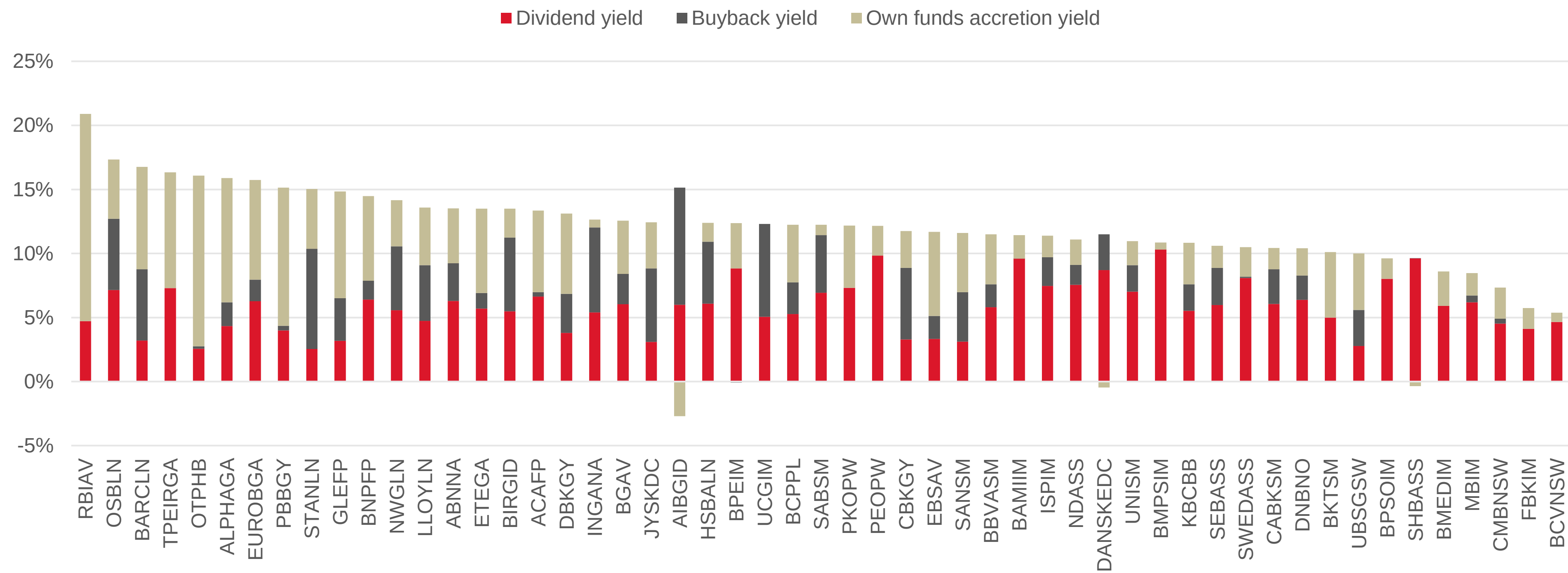


With rates above 1,5%, banks should be able to protect deposit margins while benefitting from improved asset yields on the back of steeper curves and wider asset spreads.

Data as of 13/05/2025 | Source: Axiom Alternative Investments, Bloomberg, Autonomous

II.5 High buffers, regulatory stabilisation and RWA optimisation tools support capital returns visibility

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 (IAIB, Danske).

Data as of 13/05/2025 | Source: Axiom Alternative Investments

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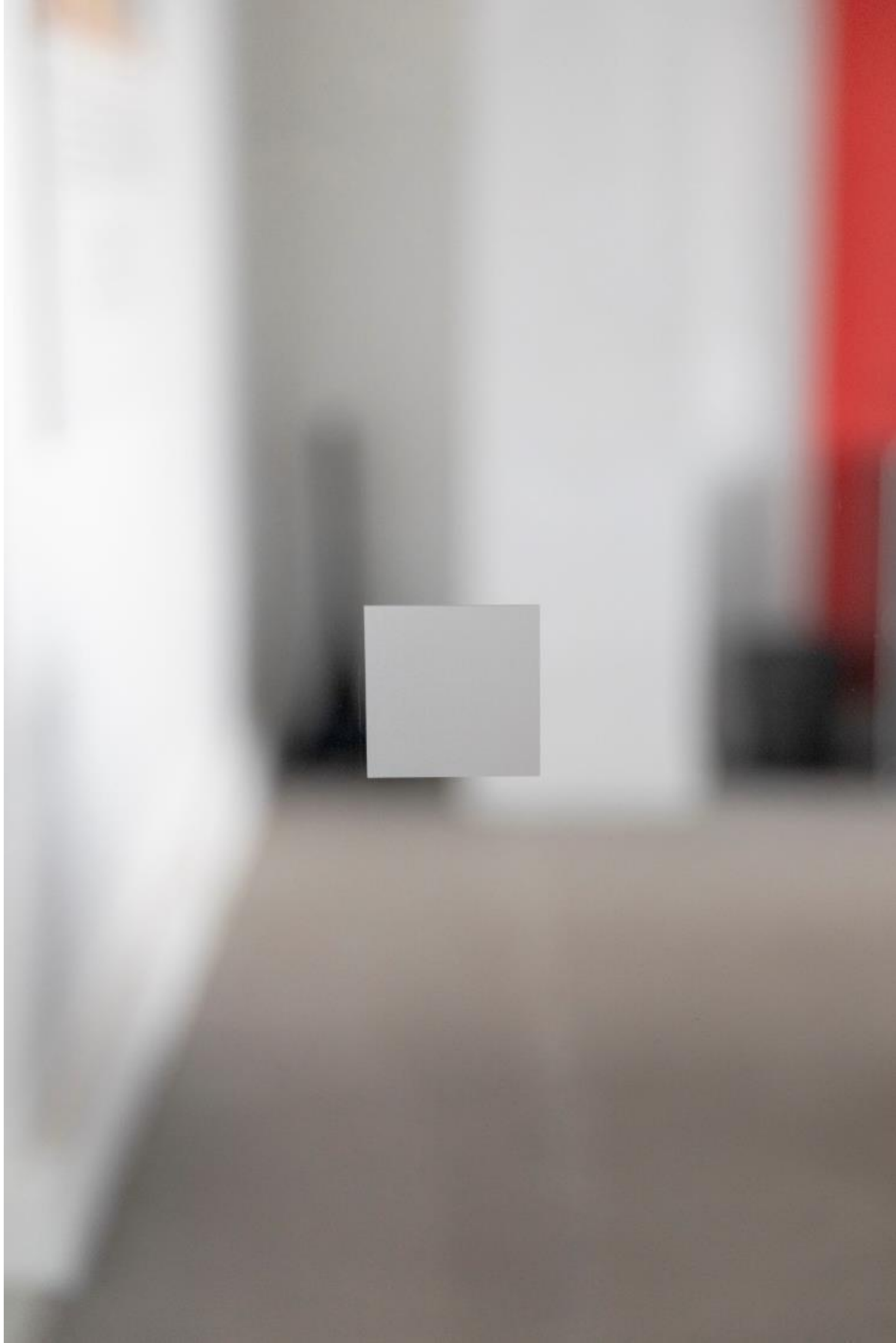
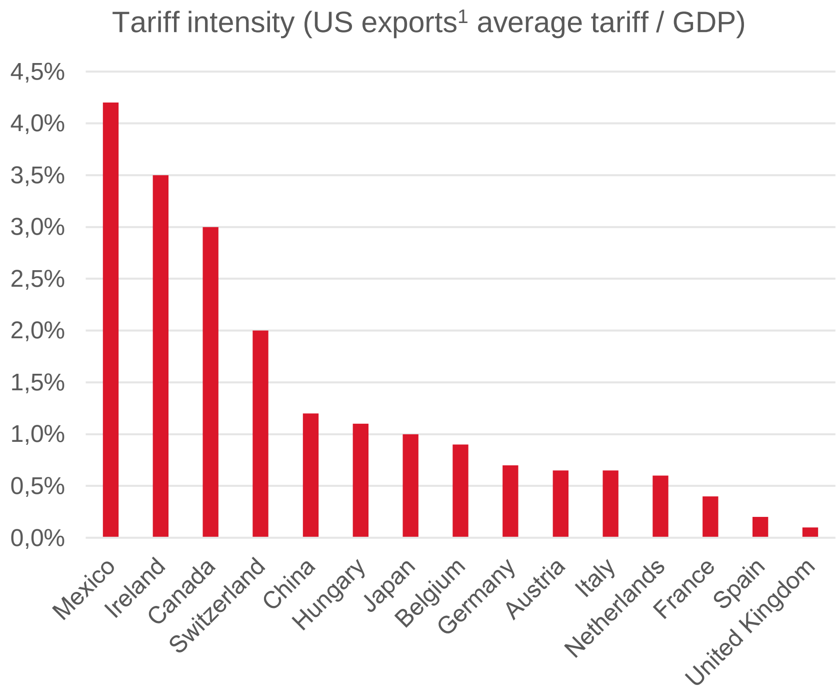
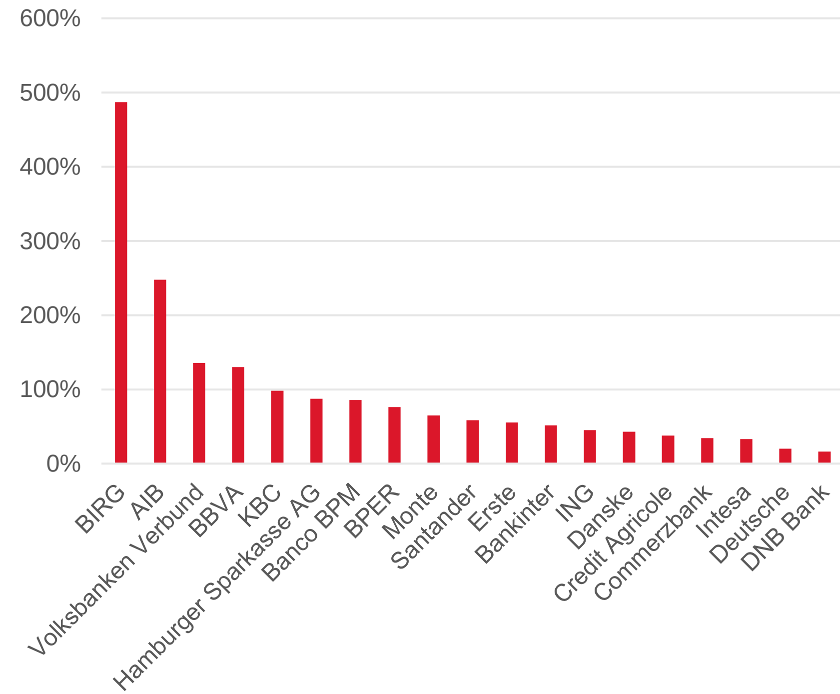


III.1 Tariff-related provisions

Tariff-intensity per country[1]



Banks ranked by tariff sensitivity (Risk-adjusted SME exposure[1] tariff intensity / CET1)

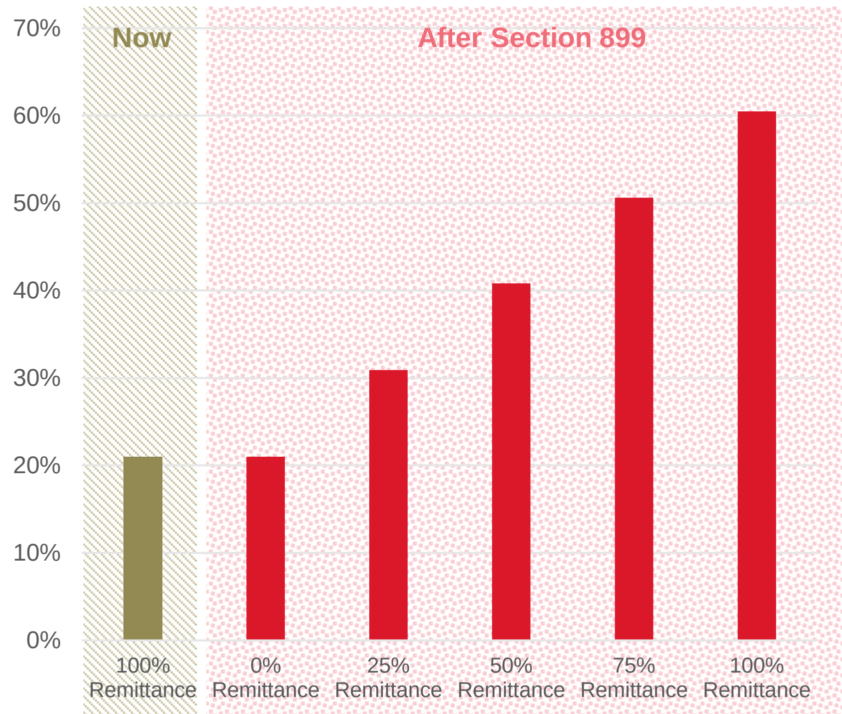


Tariffs are manageable for the European economy. Banks take comfort in the ample liquidity and low leverage of their corporate and SME clients.

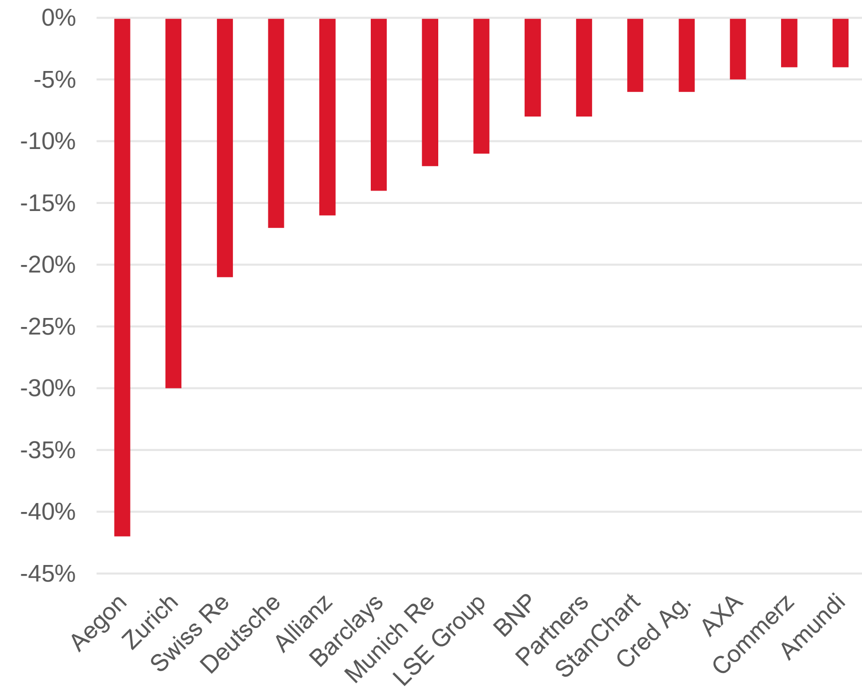
Data as of 13/05/2025 | Source: Axiom Alternative Investments, ECB. EBA | [1] As per Liberation day announcement

III.2 Section 899 risks

Effective tax rate on US subsidiaries based on Section 899 scenarios



Worst-case impact relative to group net profit

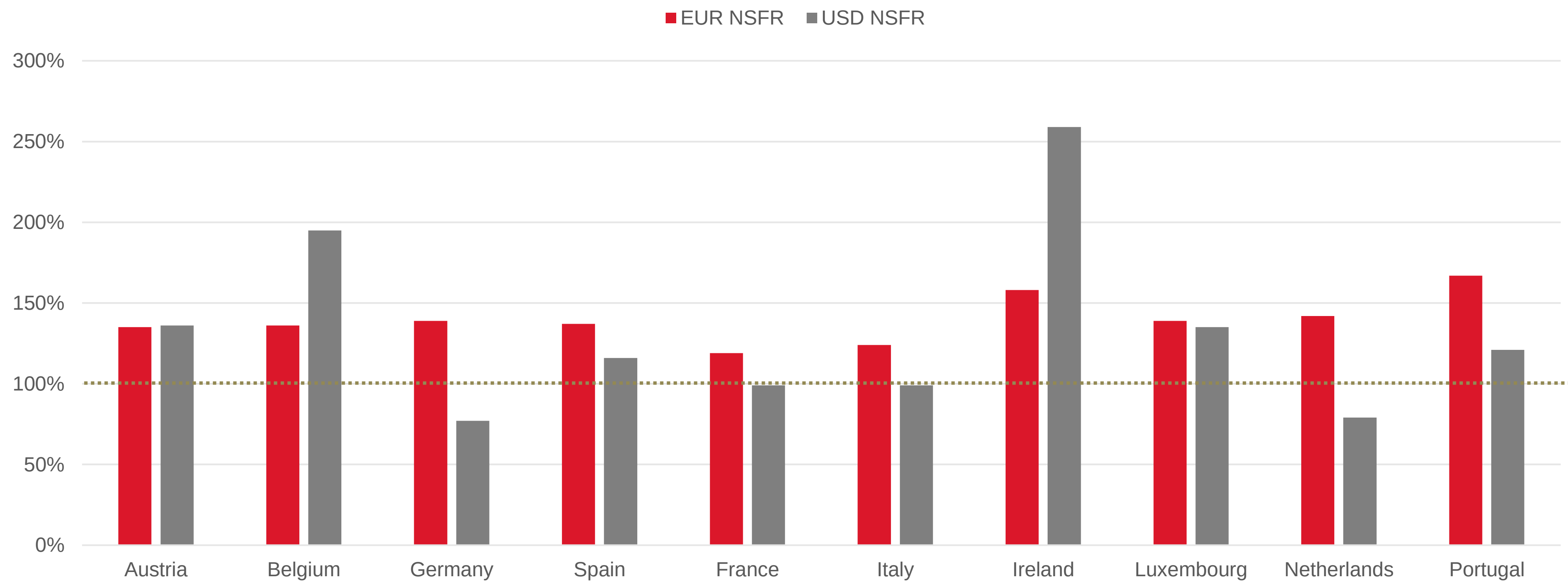


Some financial institutions may need to review their US operations if Trump decides to move negotiations from the trade to the tax arena.

Data as of 13/05/2025 | Source: Axiom Alternative Investments

III.3 USD funding

NSFR by currency (EBA data)



Though Euro area banks have excess USD funding on aggregate, some geographies – such as Germany and the Netherlands – display a shortfall. We see a USD funding stress scenario as a theoretical event.

Data as of 13/05/2025 | Source: Axiom Alternative Investments

III.4 A strong European response could more than offset tariff-related pain

1 **Additional public investment in Germany and the EU**

After years of low public investment, a > 1 trillion euros increase in public spending is expected:

- German federal and state-led infrastructure investment (potential 1.5x-2.0x multiplier)
- National escape closes and SAFE loans for defense spending
- Focus on energy independence and affordability

2 **Unlocking private funding**

- Securitizations framework, in particular Solvency II capital treatment
- Developing the Supplementary Pension sector ; promoting equity and venture capital investments
- Review of the banking sector competitiveness (expected 2026)

3 **Reducing the regulatory burden**

- ECB task force on the simplification of banking regulations (led by De Guindos)
- Ensuring integrated market infrastructure and supervision (ESMA enforcement powers)
- Insolvency rules harmonization; reduction of double regulatory layers

4 **Achieving the banking union**

- CMDI: harmonization of deposit insolvency hierarchy ; resolution of smaller banks
- EDIS: true pan-European deposit guarantee scheme
- M&A: building true pan-European banks with free flow of liquidity and capital

"Maybe the level of risk we have now in the economy is not the right one," EU financial services commissioner Maria Luís Albuquerque

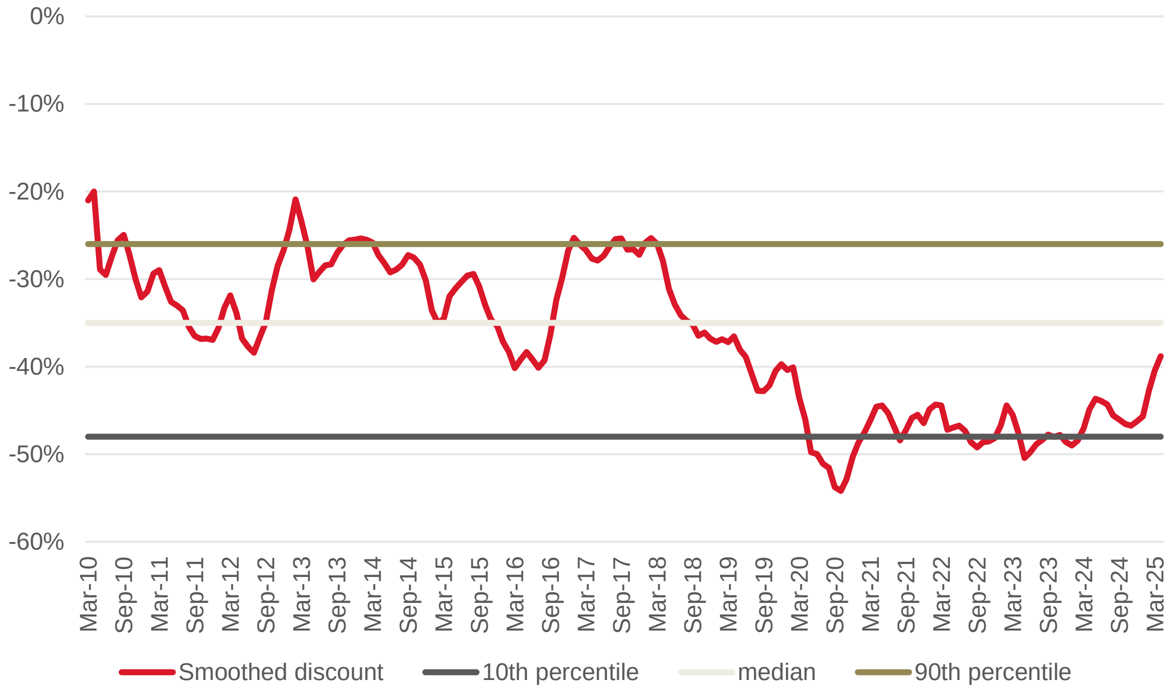
"Europe has uniquely high savings, but we fail to turn them into productive investment," Stéphane Boujnah, the chief executive of Euronext.

The pendulum is shifting to a releveraging of the private sector whereby financial intermediaries will play a key role.

Data as of 13/05/2025 | Source: Axiom Alternative Investments

II.6 Valuations have room to normalise further

P/E discount of European banks versus the Stoxx 600



Facteurs clés de revalorisation relative

- Debate shifting away from peak NIM as terminal rate is reached
- A rebound in the monetary cycle (pick-up in deposit and loan growth growth)
- High capital returns
- The European insurance sector shows that sustainable higher ROEs with high payouts can lead to a full normalisation of valuations

Sustainability of current margins combined with high capital returns visibility could drive the market discount of European banks lower. European insurers have demonstrated that the market is ready to reward high sustainable margins and payouts.

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Thank you for attending the Axiom Alternative Investments webinar.

See you next quarter.