Axiom Alternative Investments

Webinar – European Banks, Q2 2025 results

10/09/2025

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Key takeaways

Another "beat and raise" quarter, with increased management conviction

- A **strong set of results with an average pre-provision operating profits (PPOP) beat of 3%** and **2025/2026 consensus earnings up ~2%.**
- **NII was up 1% QoQ in the Eurozone,** better than expected. French retail was strong, up 3% QoQ at BNP and 8% QoQ at CASA. Spanish results suggested NII has troughed. UK matched expectations despite a competitive ISA season.
- **Fees missed slightly** due to FX/April sell-off/weaker Investment Banking fees but were offset by strong trading (which came c. 2%-8% above expectations). The tone was upbeat on IB pipeline and AuMs with a strong start to Q3.
- **Costs were flat and 1% better than consensus.**
- Capital was strong. Deutsche provided **reassuring guidance on CRR3**. Socgen launched a €1bn buyback + an interim dividend.

Further positive earnings and payout revisions are likely

- The EUR 1Y1Y swap rate **has stabilised above 2%.**
- Interest rate **curves have continued to steepen**, driven by growth expectations, fiscal expansion, QT and Dutch pension fund reforms.
- **Strong market performance and inflows**, especially in European equities and bonds, will boost commissions.
- Trading momentum is intact, with **double digit YoY modelled growth so far in Q3 in Equities and IBD**, and high activity in FICC.
- Regulatory and consolidation trends favour higher capital generation and deployment, **in distributions or highly accretive M&A.**

Diversified, resilient banks screen attractively after the strong beta rally

- Valuations have normalized, with the sector trading at c. 9.5x P/E 25-26E, a ~37% discount to the wider European market, and a ~28% discount to US banks. The relative rerating could continue, reflecting the improved resilience of the sector, especially if the European macro-outlook firms up.
- Intra-sector valuations have compressed following an aggressive beta rally in the cheapest names (Socgen, Commerz, Deutsche, ABN, etc.). Given the low opportunity cost of moving up in quality, we favour franchises able to deliver double digit ROEs even in a more adverse macro scenario.

Data as of 18/08/2025 | Source: Axiom Alternative Investments

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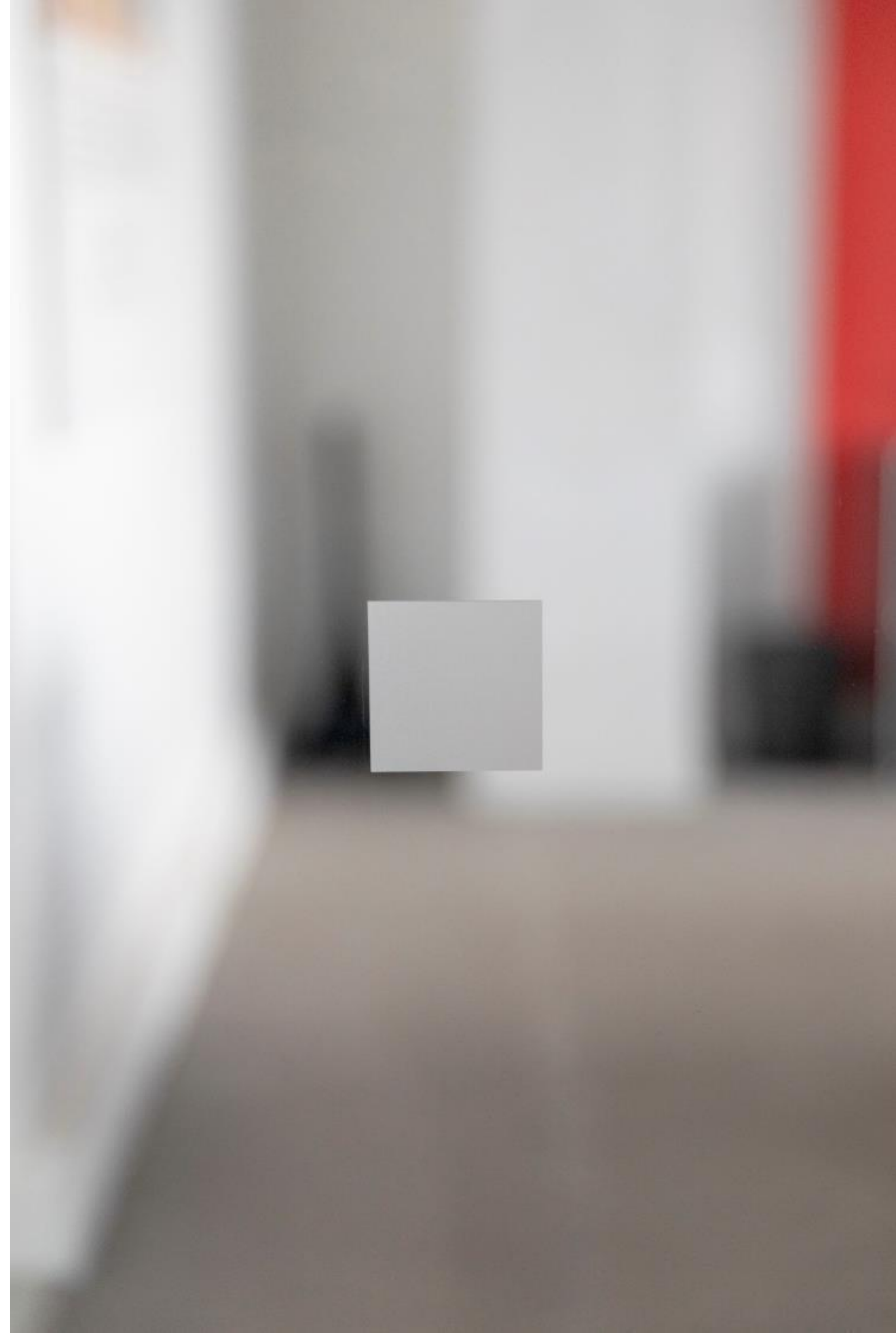
I. **Another “beat and raise” quarter, with increased management conviction**

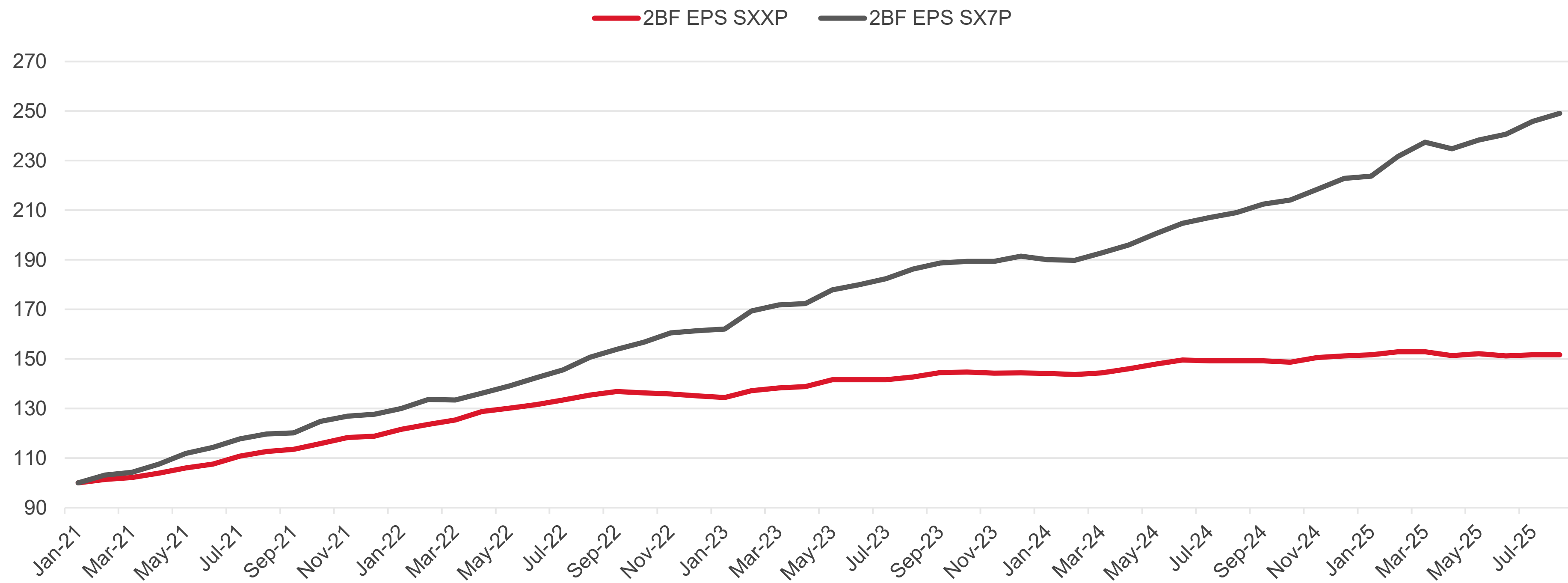
II. Further positive earnings and payout revisions are likely

III. Diversified, resilient banks screen attractively after the strong beta rally



I.1 The sector upgrade momentum is intact

Two-year rolling EPS expectations: SX7P vs SXXP

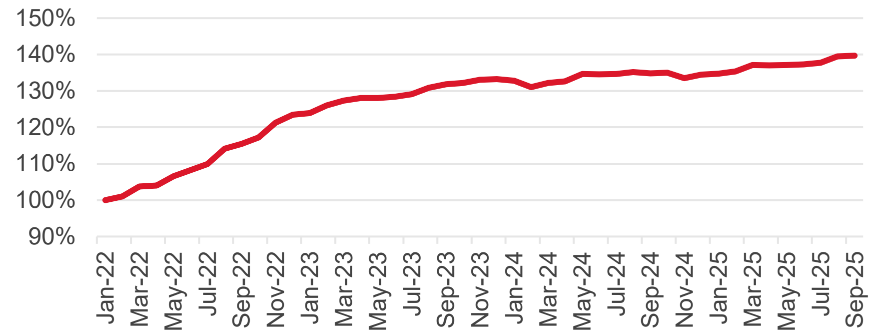


Without financials, the Stoxx 600 would have seen negative EPS growth.

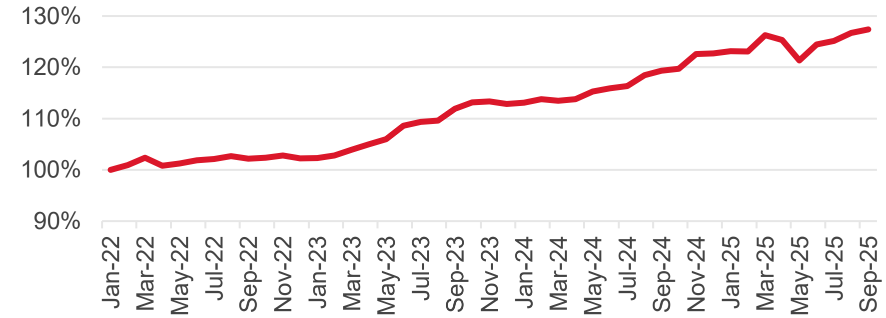
Data as of 18/08/2025 | Source: Axiom Alternative Investments

I.2. Earnings strength is broad based

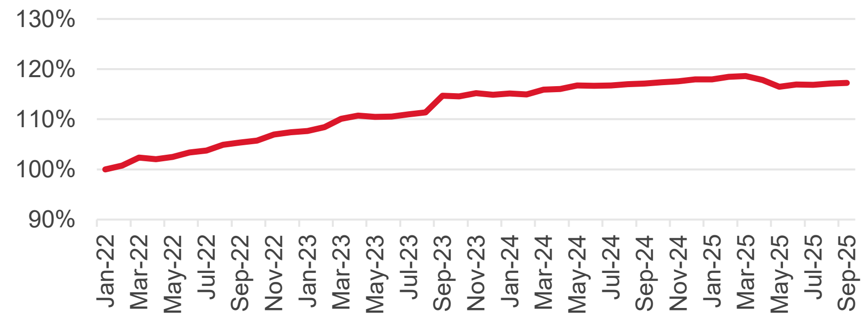
Net Interest Income[1]



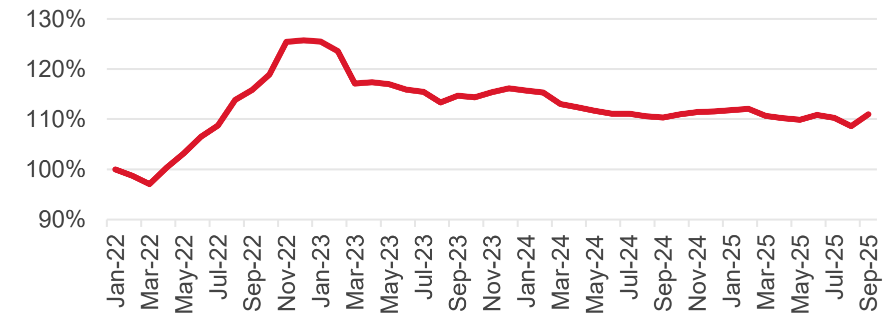
Fees[1]



Costs[1]



Provisions[1]

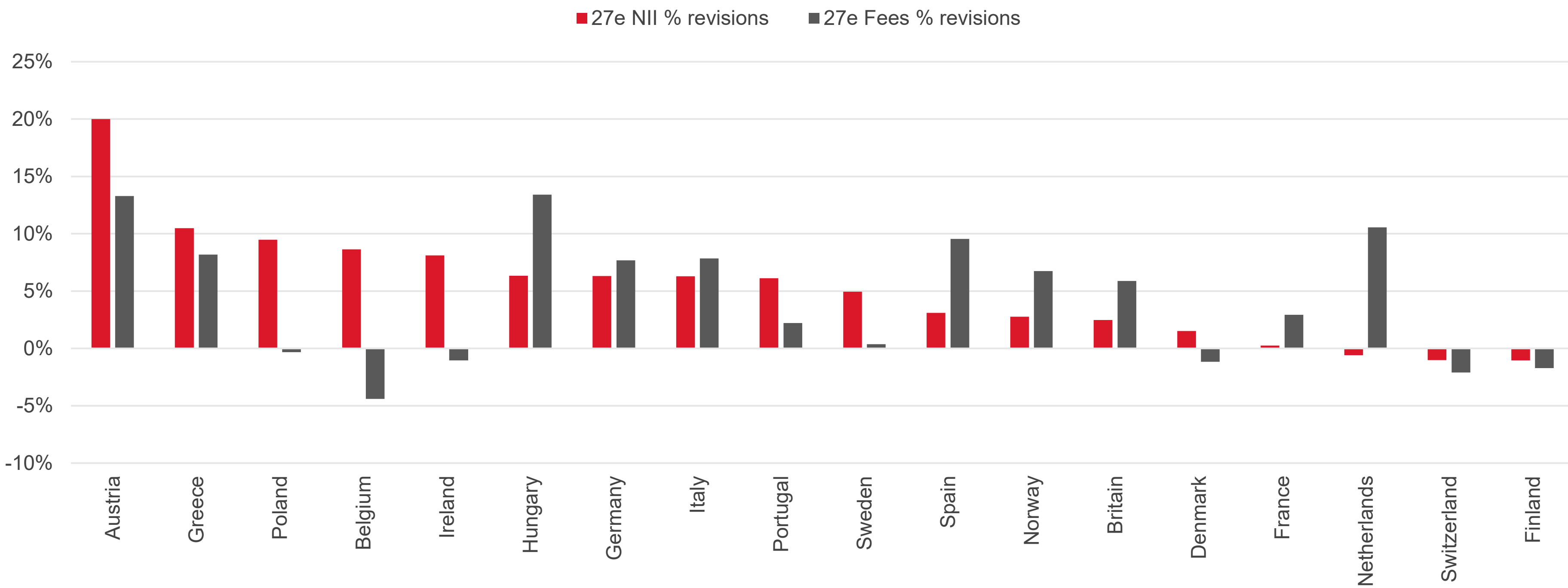


NII has troughed and is now in a positive trend thanks to more favourable interest curves and deposit betas. Fee expectations have more than regained their post-Liberation day drop. Costs remain contained, with FTE reduction offsetting wage increases.

Data as of 18/08/2025 | Source: Axiom Alternative Investments | [1] 2 year forward blended consensus expectations

I.3 NII revisions have been the strongest in Greece, Spain, and the CEE

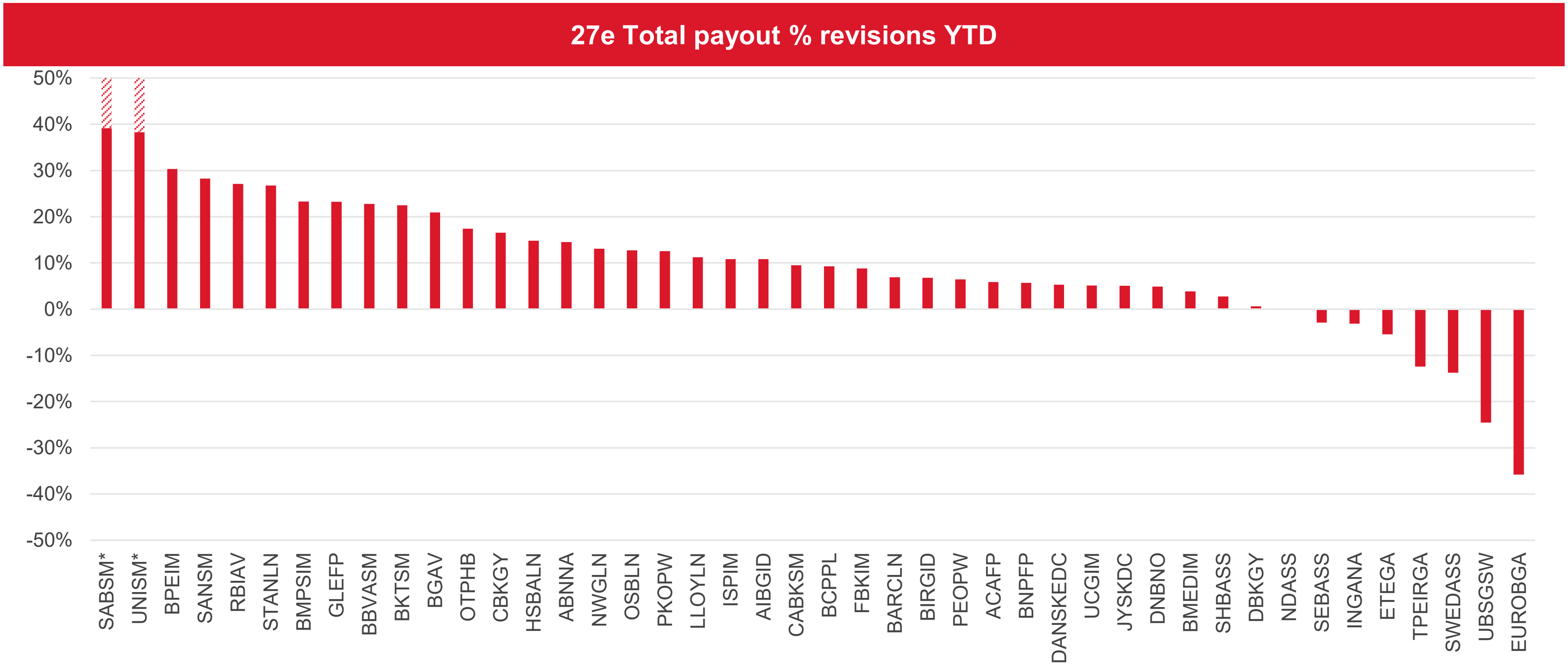
M&A, loan growth and better deposit margins have led to positive NII revisions year-to-date



NII expectations have declined only in Finland (low balance sheet growth) and Switzerland (lower rates). Elsewhere, higher curves and lower deposit costs have boosted the NII outlook. In Austria, the picture is skewed by Erste's acquisition of Santander Polska.

Data as of 18/08/2025 | Source: Axiom Alternative Investments

I.4 Banks have demonstrated excellent RWA control, leading to a step-up in payout expectations



A lower-than-expected day-1 impact from Basel 4 improved the RWA density outlook. Combined with high profits, this has led to distribution expectations increasing by double digit on average. For Sabadell, the expectational payout is linked to the proceeds of the TSB sale.

Data as of 18/08/2025 | Source: Axiom Alternative Investments | * SABSM = 110% | * UNISM = 74%

I.5 Management guidance has been confirmed or upgraded

NII / Deposit cost & beta / Hedging portfolio

Banks generally signaled **better deposit margins than expected due to "terming in" and an improved outlook from steeper curves and volume growth**. Rate sensitivity non-linear, some negative convexity closer to the lower bound as passing rate cuts to depositors become more difficult.

- **Italy: Normalisation of M&A activity to help larger players regain market share in new lending**.
- Spain:
  - **Sabadell assuming 2.3% Euribor in 2027.**
  - Santander flagging irrational competition in Spanish mortgages.
  - Bankinter pointing to more "terming-in" than expected.
- **Germany: slightly better deposit beta than expected despite anecdotal evidence of increased competition**.
- **UK: competitive ISA season led to slightly higher deposit costs. Strong tailwinds from hedge roll-overs reiterated.**
- **HSBC/StanChart: questions over the HIBOR rate**
- Sweden: passing most of rate cuts to customers. 3-6m lag between rate cut and NII trough
- Denmark: rate sensitivity increasing as passing rate cuts to customers become more difficult. Hedge roll-overs to offset deposit margins headwinds.

Fee income and other revenues lines

April sell-off and Euro strength pressured fees but banks pointed to a strong momentum in the end of the quarter carrying to Q3.

- Deutsche Bank: Acceleration in capital markets activity towards the end of the quarter. **Deals delayed in H1 are expected to come through later in the year. FICC and IB had a strong start to Q3**
- Bawag: "cautious on credit underwriting due to frothy valuations"
- **Intesa: strong asset-gathering activity is related to higher hiring in wealth management and private banking, with the bank taking advantage of the "wild west" of the Italian M&A.**
- French banks: Equities weakness a function of business mix:
  - US flow business was particularly strong in 2Q, where BNP benefited less than US peers because of its lower share of cash equities (around 20% of revenue) and in the US equities market more broadly;
  - **Less demand for structured derivatives in a lower-volatility environment, which seems to have been more of an issue in Europe, where BNP is more exposed than US peers.**

Data as of 18/08/2025 | Source: Axiom Alternative Investments

I.5 Management guidance has been confirmed or upgraded (cont'd)

Asset quality and Costs

Periphery banks mostly improved their provision guidance

- Deutsche Bank: management did not officially discard the €1.4-1.6bn credit loss provision guidance for 2025, but the CFO suggested that the €1.7bn assumption in current consensus was a 'pretty good number'
- Lloyds**: early warning indicators are reassuring (RCF utilizations, card repayments), with retail asset quality particularly benign**
- BNP: Small provision miss on individual cases. Share of non-IG exposure rose from 225 to 25%. No early warning indicators.
- **HSBC: ECL guidance upped due to poor Hong Kong office real estate trends**
- Handelsbanken: no more need for management overlays

Capital and payout

Focus on B4 impact

- **Deutsche Bank: The output floor would not become binding before 2030. Management clarified that FRTB-related RWA inflation of standardized RWAs was rather simple and low-cost to mitigate**
- SEB: Expect to be able to mitigate much of the potential Basel IV impacts by expanding external ratings on its corporate book, at a manageable cost to the group
- **UniCredit: Given the withdrawal of the Banco BPM offer, UniCredit will start the pending 2024 remaining share buyback of €3.6bn as soon as practicable after 2Q25 results**
- Sabadell: Sabadell guides to cumulative distributions of €6.3bn for 2025-27E. Overall, the amounts represent a payout of 40% of market cap, **boosted by the €2.5bn extraordinary dividend linked to the TSB sale that had already been announced.**

Other

- **Unicredit: The 20% stake in Alpha and the eventual 29% stake in Commerzbank are expected to contribute ~7% to the 2027 earnings**. The contribution represents an ROI of 20% after hedge costs.
- **Bankinter could be considering expansion into new Eurozone markets**, either organically or via bolt-on M&A, the context is the aim to diversify internationally over the long-term.
- Deutsche Bank: competitive position will be protected by the global demand for capital market counterparties other than the US bulge bracket
- **BNP: Management chose to emphasize more the tariffs related risk rather than potential benefits from German fiscal stimulus plan**
- BCP: The Portuguese government approved the measure to decrease the IRC from 20% to 19% in 2026 and subsequently by 1 p.p. per year until it reaches 17%.

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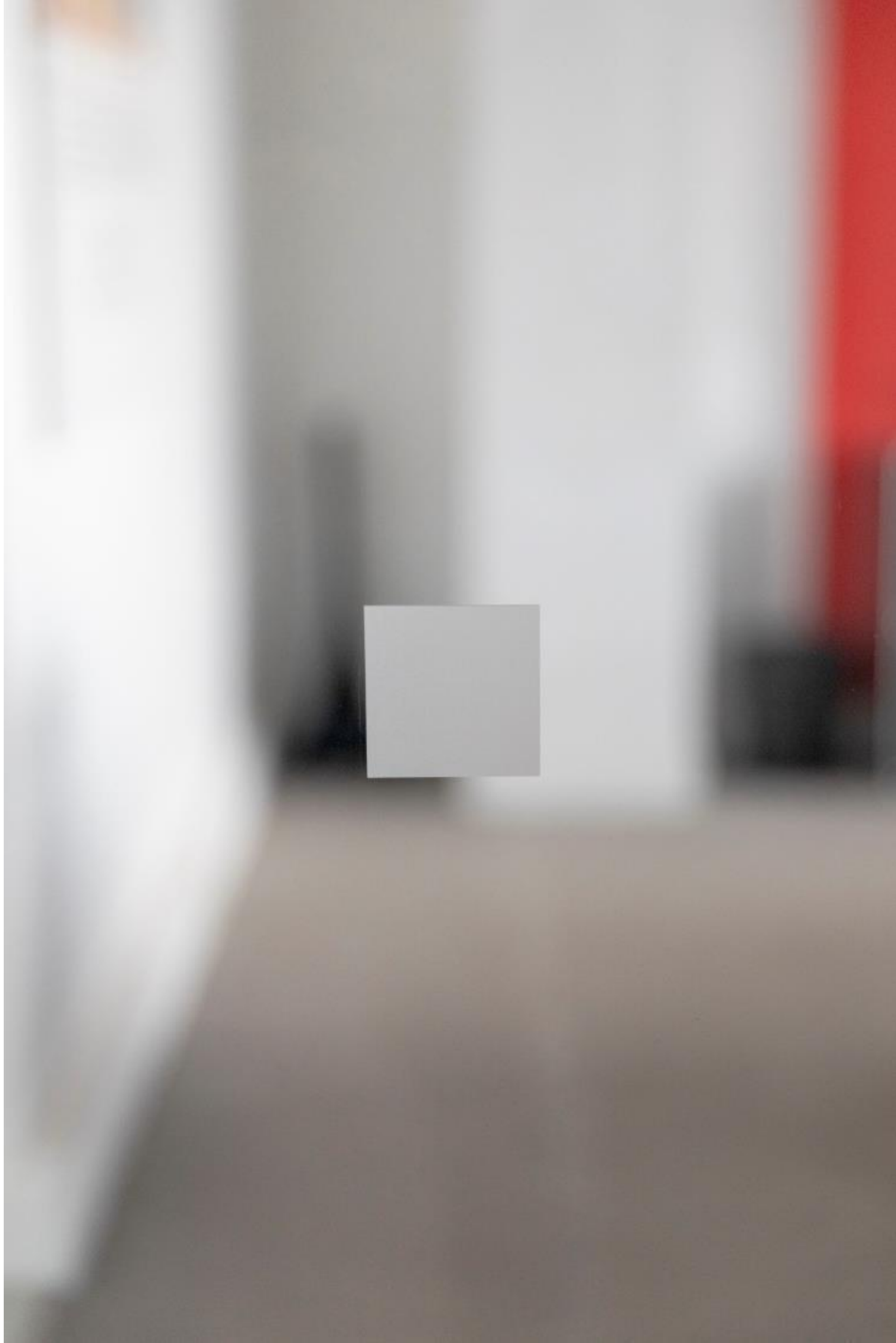
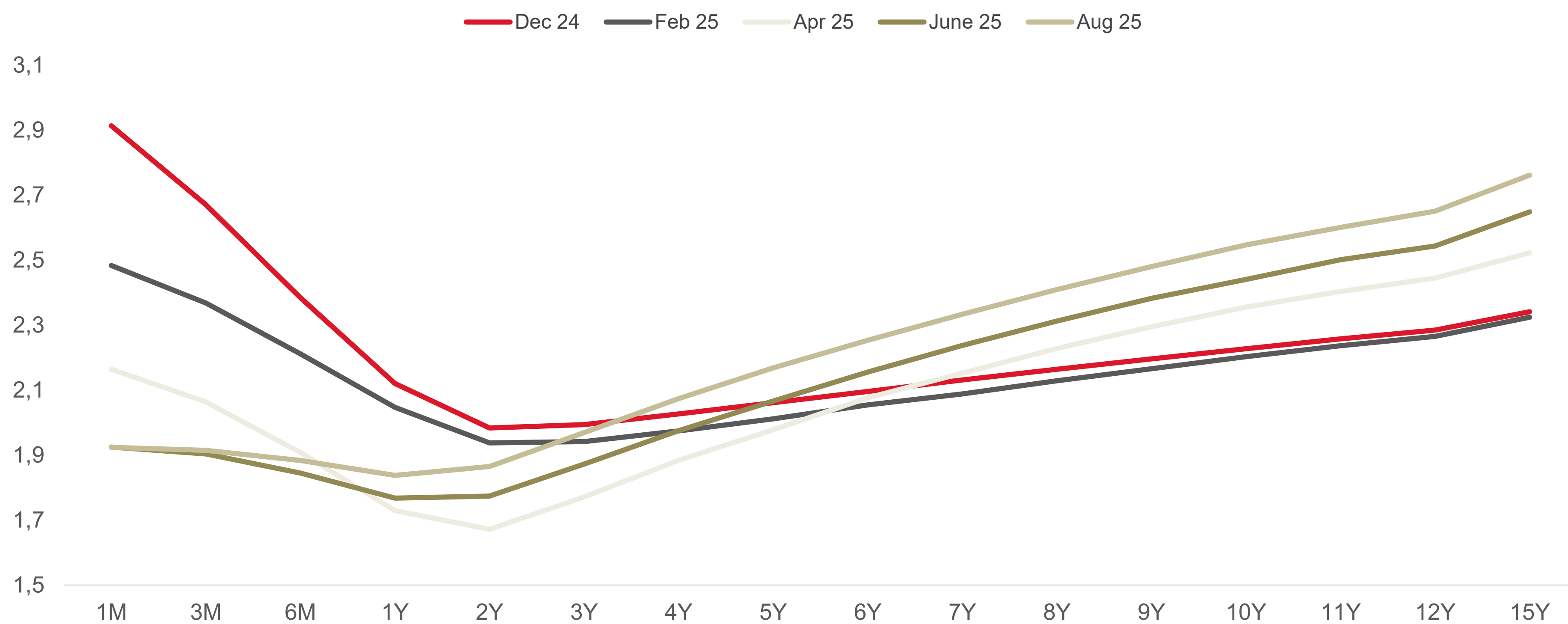


II.1 The interest rate environment is increasingly conducive

A higher and steeper EUR swap curve versus the start of the year



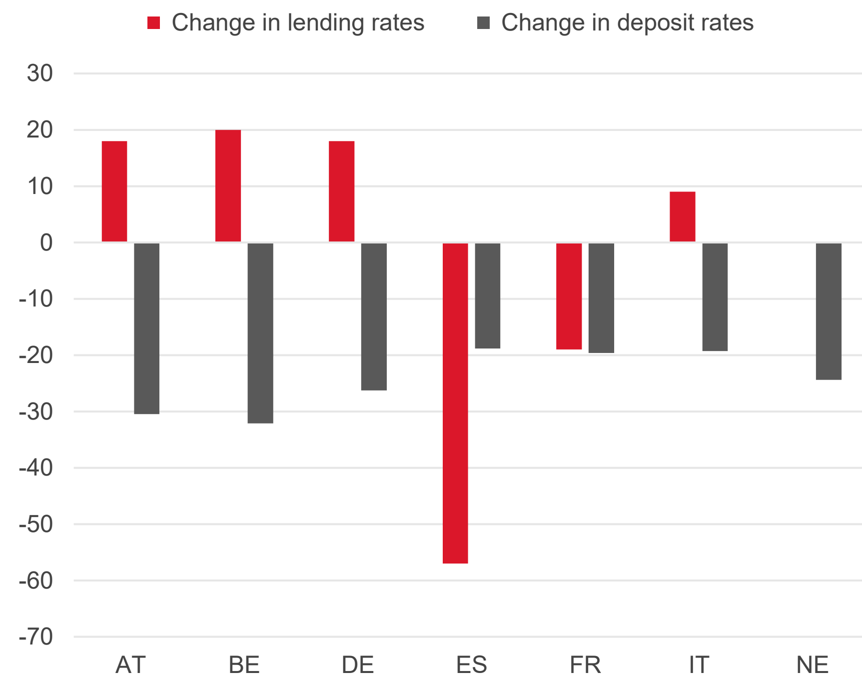
A combination of factors has led to a steepening in the short-end (higher growth expectations, German investments roll-out), the belly (end of “mercantilist” era, QT, sovereign supply) and the very long-end (Dutch pension fund reform) of the curve.

Data as of 18/08/2025 | Source: Axiom Alternative Investments

II.2 Front-end customer margins have improved despite interest rate cuts since the start of the year

Euro area customer spread (bps)

Front book margins have widened year to date in most countries as deposit costs fall (bps)

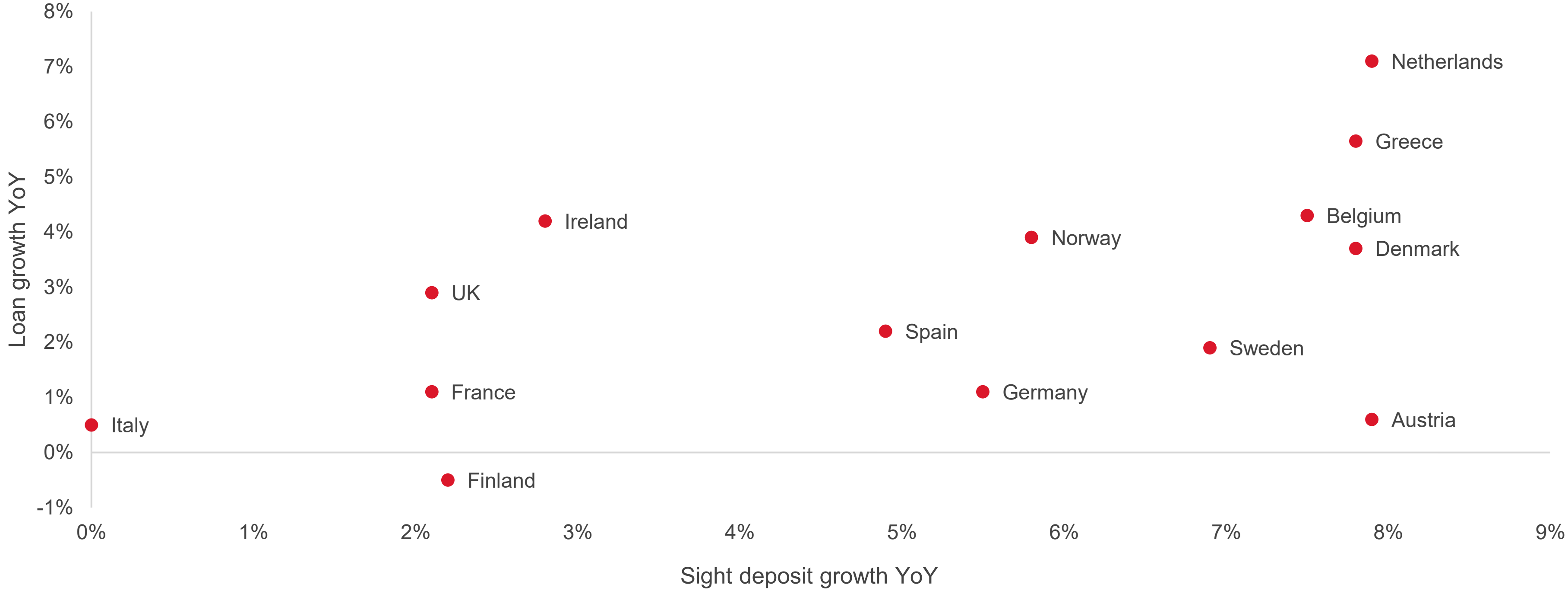


Lending rates have slightly increased overall while deposit costs have come down significantly. An expectation is Spain, where high mortgage competition has led to sometimes irrational pricing.

Data as of 18/08/2025 | Source: Axiom Alternative Investments

II.3 Deposit and loan growth are picking up

Household and corporate aggregate balance growth by country

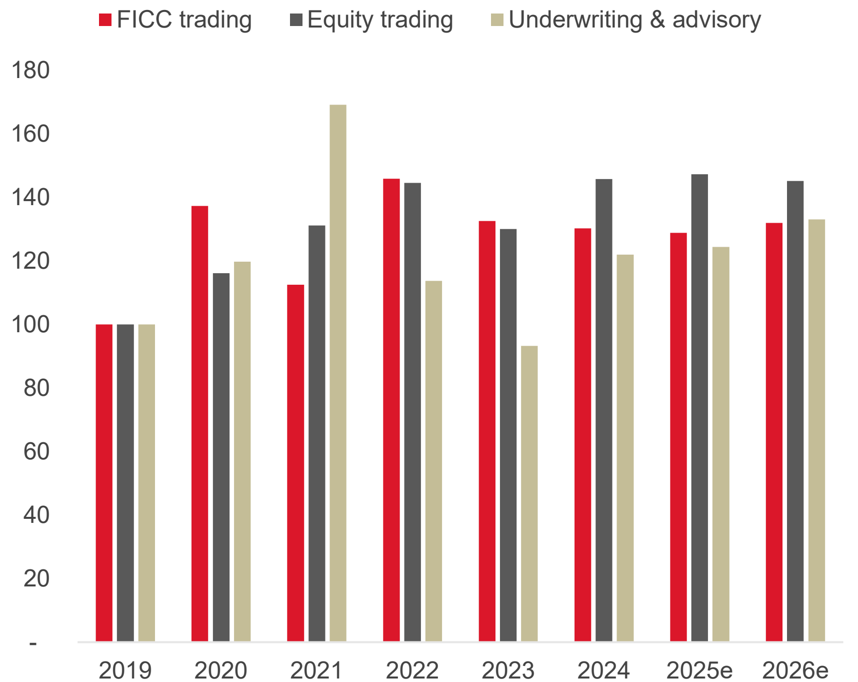


Sight deposit growth is running at c. 4% YoY, in-line with long-term levels, with strong dispersion between countries (BTP still favoured in Italy, life insurance in France, etc.). Loan growth of c. 2.3% is still below long-term trends but picking up.

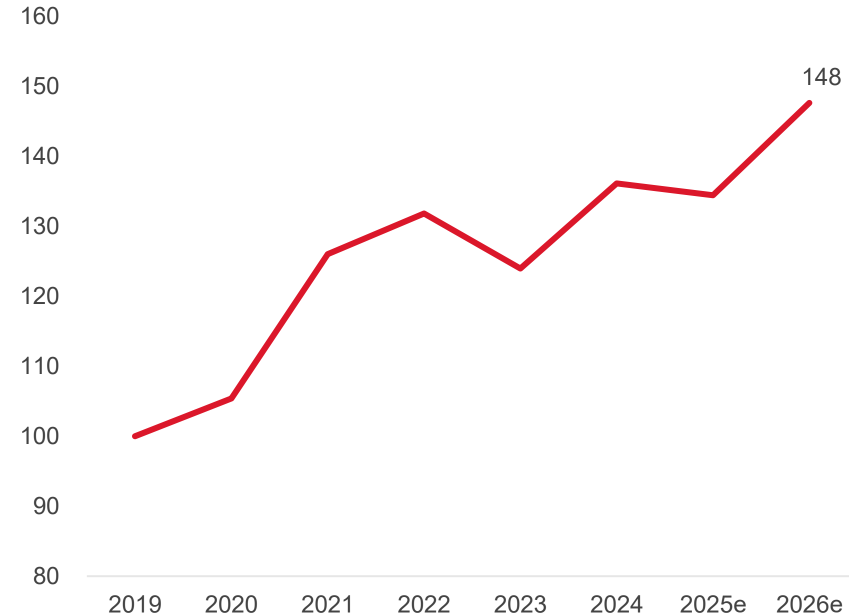
Data as of 18/08/2025 | Source: Axiom Alternative Investments

II.4 The commissions and trading pool is expanding

CIB revenues are trending above the pre-Covid norm (€ bn)



Asset management revenues are benefiting from strong markets and growth in private strategies (€ bn)

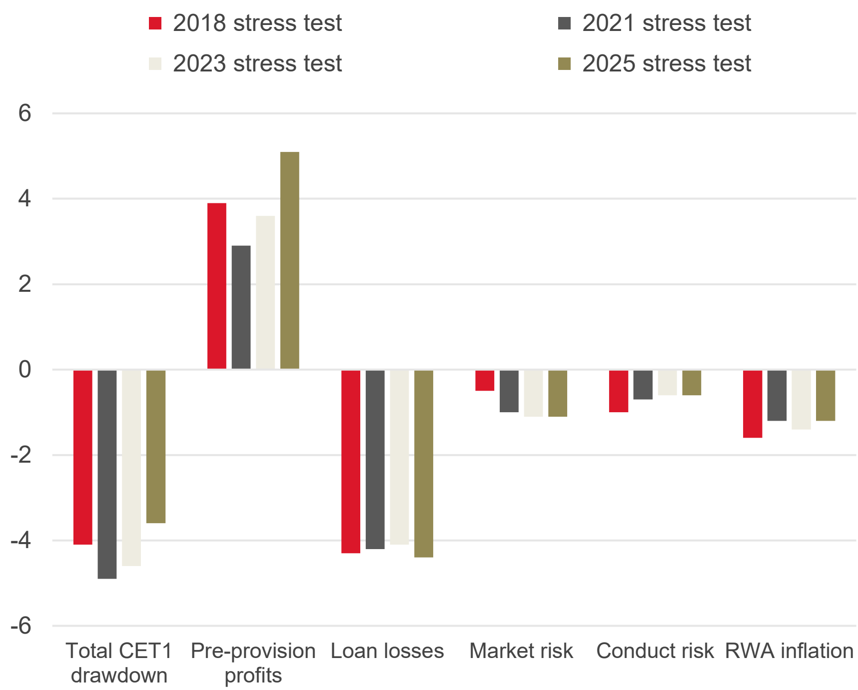


The combination of bull risk markets and a volatile macro environment (FX, rates, commos) is boosting commissions and trading revenues. Underwriting and advisory is still lagging but tracking c. +20% YoY.

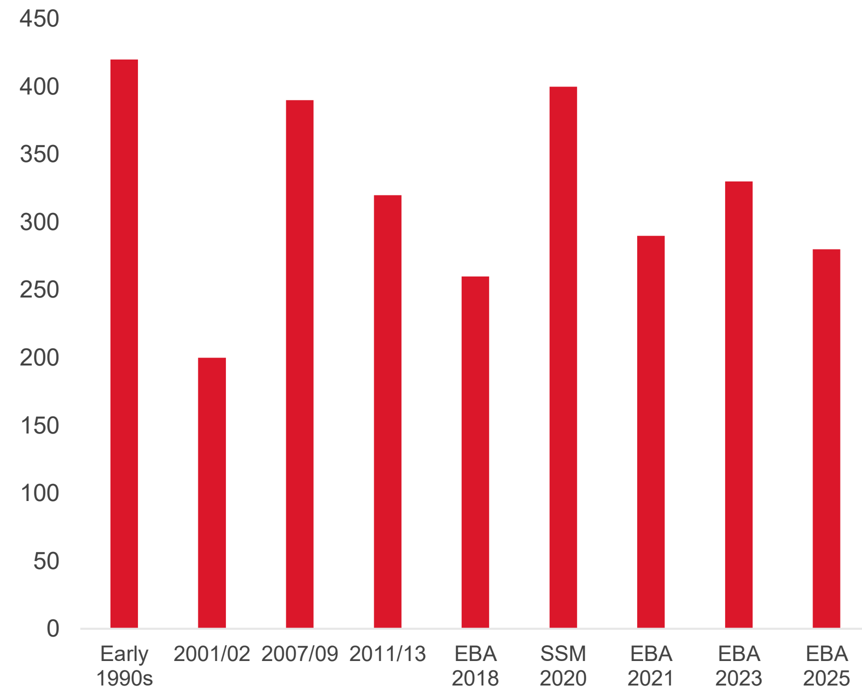
Data as of 18/08/2025 | Source: Axiom Alternative Investments

II.5 The 2025 stress test demonstrates the comfortable capital position of the sector

The improved earnings power is the main source of the improvement in the drawdown



3Y cumulative provisions (bps) were in line with previous stress tests and recessions

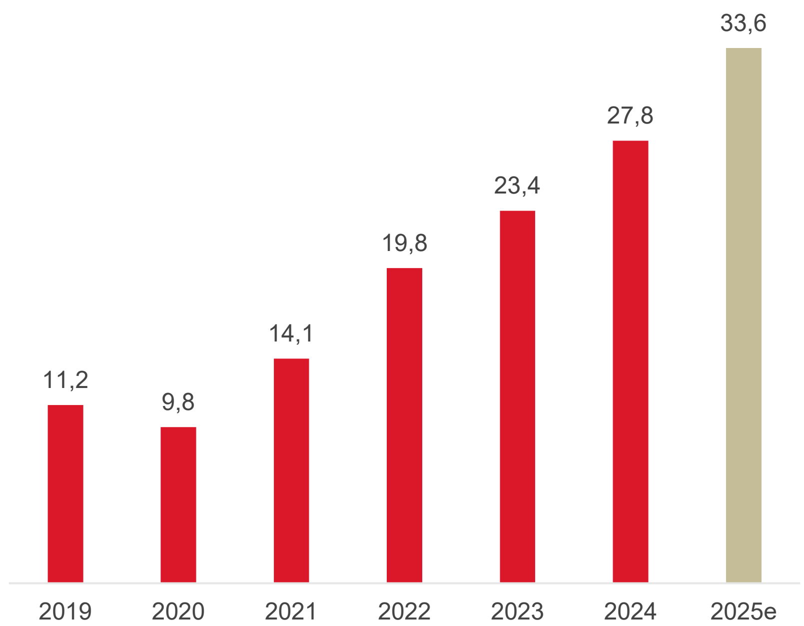


Among the listed banks, only three came below their SREP requirements in the adverse scenario (Deutsche, Société Générale and BNP). However, the assumptions used didn't reflect the recent improvements in their profitability outlook.

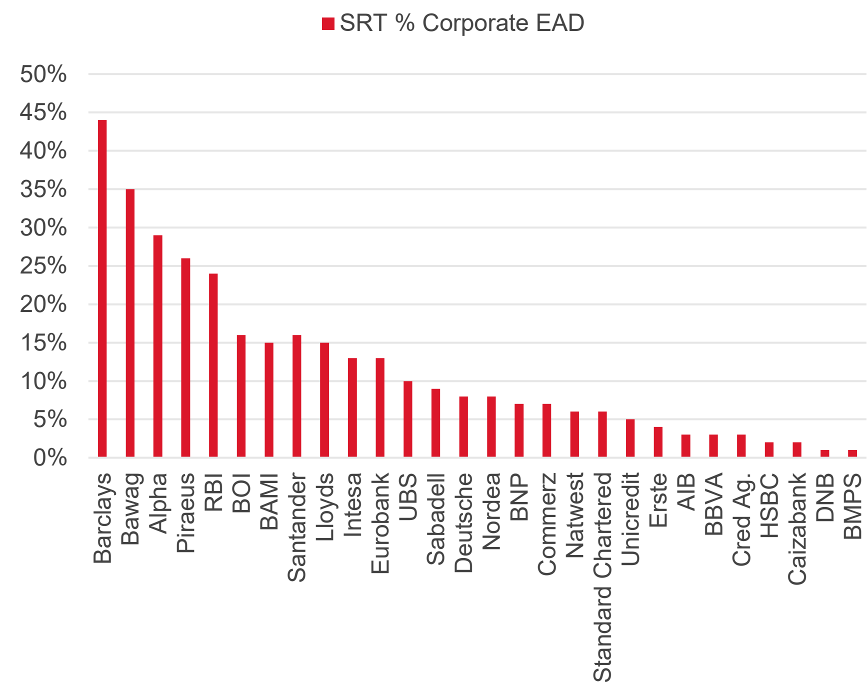
Data as of 18/08/2025 | Source: Axiom Alternative Investments

II.6 Capital: further optionality from RWA optimisation

The SRT market in expected to growth further



Most banks have room to significantly optimise their RWAs through SRTs



Many banks are still to start using SRT in a systemic manner. We estimate a potential of 40 to 50 bps in excess capital generation from a broader use of SRTs.

Data as of 18/08/2025 | Source: Axiom Alternative Investments

II.7 M&A developments highlight the potential for high ROI capital deployment

UniCredit	The 20% stake in Alpha and the eventual 29% stake in Commerzbank are expected to contribute ~7% to the 2027 earnings - not quite at a level we have seen at other banks in the past, but meaningful, nonetheless. The contribution represents an ROI of 20% after hedge costs, which is attractive - so the investments would be financially justified. But they come at an incremental investment cost of ~150bps, reducing the excess capital by ~€4.5bn and thus change UniCredit's investment case from being predominantly an excess capital distribution story to an earnings / ROE story.
Sabadell / BBVA	Sabadell believes that no synergy generation will be possible before any merger can take place. BBVA: There is a clearly strong case for consolidation in light of rising technology fixed costs in the banking sector overall that increases the need to gain size. New financial impacts will be provided once the tender is launched, expected in early September.
BNP PARIBAS	According to Bloomberg, BNP is in discussions to buy the fleet leasing business of Mercedes for around €1bn. This shapes up to be a typical BNP bolt-on deal: strategically strengthening their European fleet leasing platform Arval at a what looks to us like a reasonable price and with an affordable capital investment upfront (1% EPS accretive for ~10-15bps CET1 impact).
BPER: Banca	Regarding Sondrio, synergies were reiterated, with the integration now expected to be completed by 1H26 and merger approval anticipated by the end of October. All financial targets including synergies were reiterated. The bank expects to update on its business plan post Sondrio integration.
KBC	KBC downplayed the long-standing preference from Wallonia for a Belfius-Ethias tie-up, rightly pointing out that there will be other views in the inevitable negotiations to come. KBC seems convinced that Ethias will likely come onto the table in 2026.
SEB	The acquisition of mortgage challenger platform Stabelo may cost more than the SEK 350m Swedbank paid (~SEK 1bn total based on Stabelo owner Creades valuation). Stabelo will be managed on an arms length basis with its own management.
Piraeus	The transformation plan of Ethniki Insurance is on track and management still assumes about €90m PBT by 2027, which is factored into the 5% EPS accretion guide from the acquisition.
EUROBANK	The comfortable capital position leaves room for pursuing M&A. Management is interested in banking, insurance and asset management deals in all of its three main markets, calling out Bulgaria in particular.

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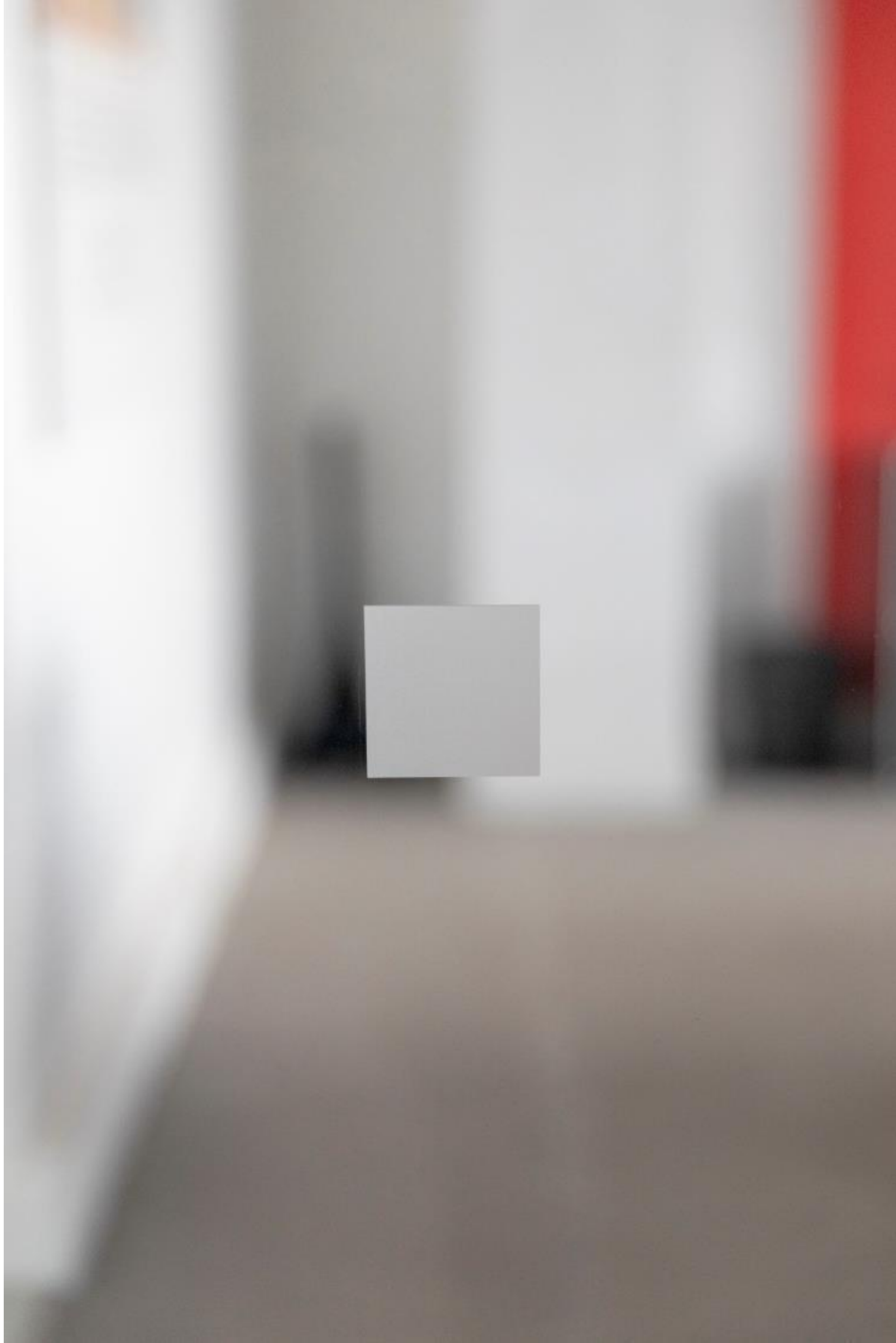
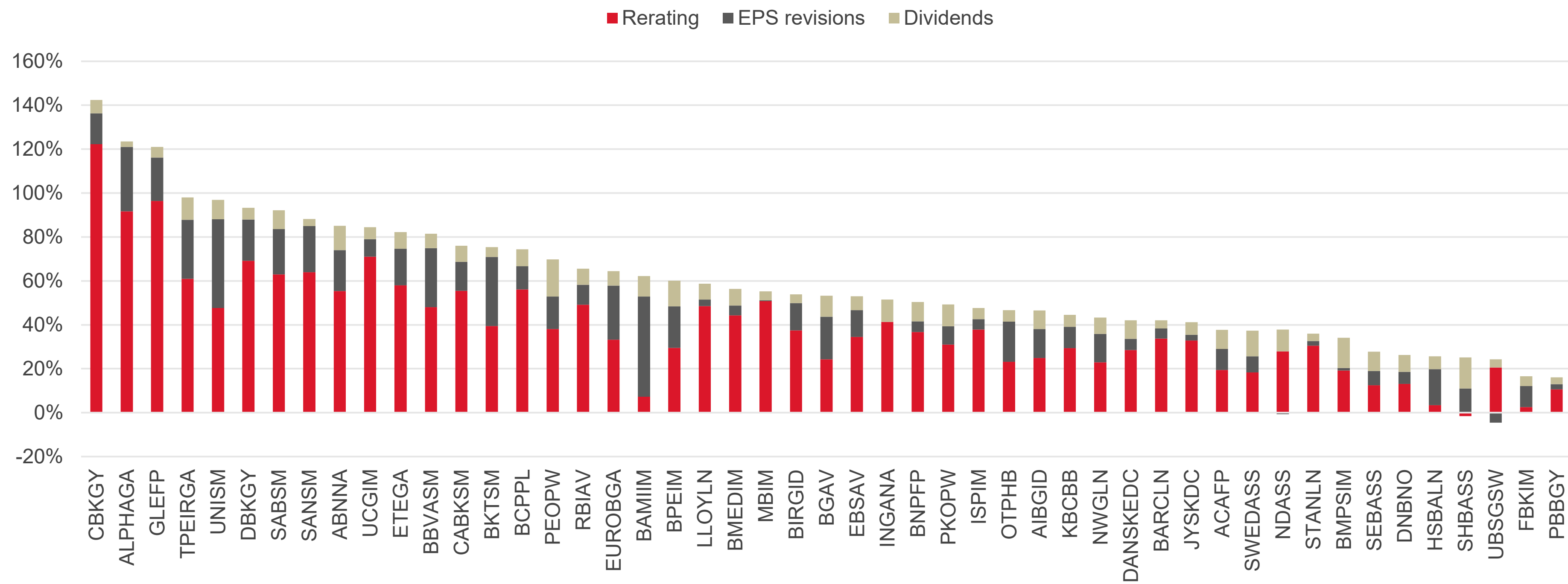


III.1 Rerating action has been the dominant driver in relative returns

Rerating has been the dominant driver of total returns and stock dispersion.

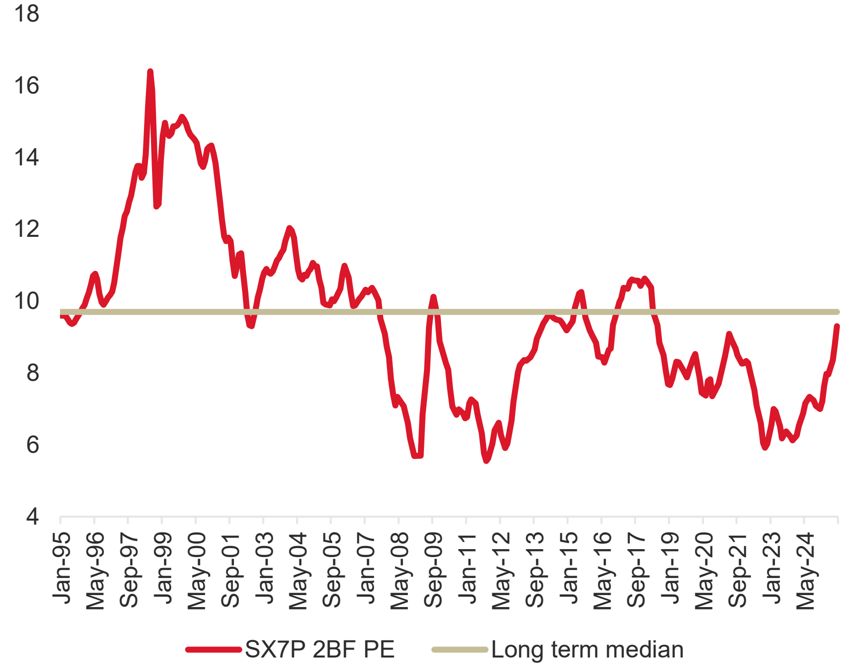


While EPS revisions have been strong and broad based, the rerating action has been more differentiated. The “cheap restructuring” stories such as Société Générale, Commerzbank, Deutsche Bank, and some periphery banks such as the Greek or Spanish banks, have benefitted from a quasi doubling in their PE multiples year-to-date

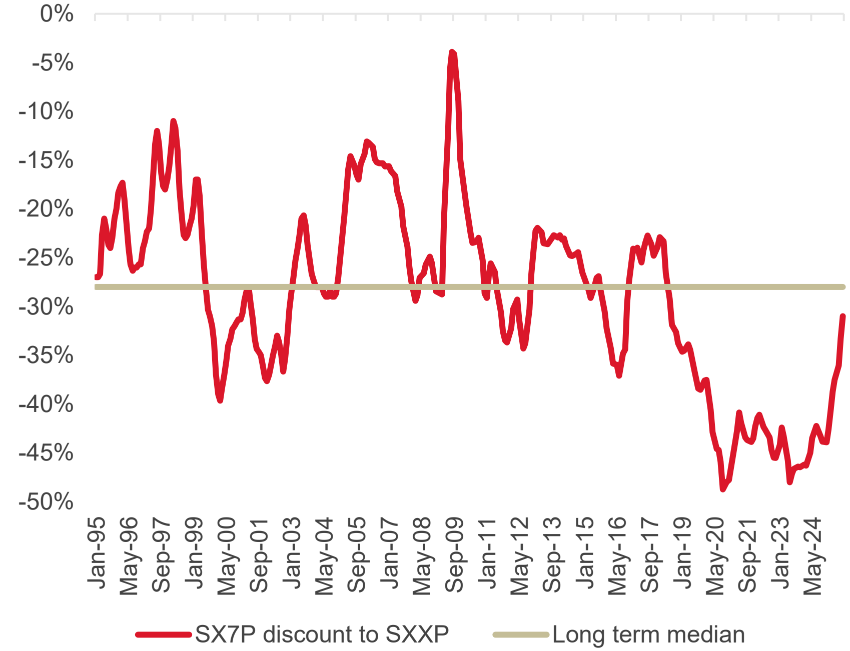
Data as of 18/08/2025 | Source: Axiom Alternative Investments

III.2 Price: at a crossroads

Forward price-to-earnings ratio for the Stoxx 600 Banks



European banks PE discount to the broader European market



Though valuations are reaching their post-GFC highs, they look low versus the two prior decades. Given the consistency of their earnings delivery versus more uncertain sectors, it would not be surprising to see the discount compress further.

Data as of 18/08/2025 | Source: Axiom Alternative Investments

III.3 Earnings momentum, relative valuations, and carry remain supportive factors

Reasons why banks have performed well year-to-date

Can it continue?

Better economic prospects	Stronger purchasing power, resilient labour markets, recovering credit demand, and a rebound in manufacturing PMIs have lifted medium-term growth expectations. Delivering structural reforms in Germany and fostering broader economic confidence will be critical to sustaining this momentum.
No fear of ECB rate cuts	The market has stopped worrying about rate cuts and is now focused on rate hikes in late 2026 and 2027 as the German fiscal package is expected to create inflationary pressures. We see risks slightly tilted to the downside due to slowing wages and downward pressure from energy and food prices.
Earnings revisions	EPS have been revised up by 10% year-to-date against -7% for the other sectors in aggregate. Our models show a further high-single digit potential if curves and market levels hold.
Buy Europe	Europe has attracted allocations thanks to its relative stability, especially compared with the perceived weakening of U.S. institutions, and the renewed unity among major governments on defense and investment. Sustained political stability, both nationally and at the European level, remains essential.
Carry and valuation attraction	Though banks have lost the absolute appeal of below-cycle PE ratios, they remain very attractive in relative terms, at a 30% discount to other sectors, a 25% discount to US leading banks and a 10% discount to US regional banks. The high-single digit distribution yield (8-9%) is still well above long-term levels.

Data as of 18/08/2025 | Source: Axiom Alternative Investments

III.4 Price-to-book dispersion demonstrates a possible excessive focus on the short-term profitability outlook

Some Spanish banks are trading above 2.0x, while French banks are still trading below 1.0x

Some euro area interest-rate exposed names may be vulnerable to a European macro slowdown.

Data as of 18/08/2025 | Source: Axiom Alternative Investments

III.5 Earnings multiples have compressed around the 9.5x long-term average

Multiples have compressed significantly. Iberian peninsula domestic banks are now trading at a higher PE multiple than Nordic banks.

The premium previously commanded by quality compounder (KBC, Nordic banks, Intesa, etc.) has mostly evaporated. Efficient, diversified franchise capable of double digits returns even in an adverse macro scenario screen attractively.

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