European banks

European banks promise €120bn of shareholder returns on interest rate gains

Returns via buybacks and dividends higher than any year since before the financial crisis

Four years ago, the European Central Bank ordered lenders to halt their capital return policies at the start of the Covid-19 outbreak © Cavan Images/Alamy

Owen Walker, European Banking Correspondent FEBRUARY 26 2024

European banks are on course to return more than €120bn to shareholders off the back of their 2023 results as they pass on the benefits of surging interest rates to investors.

Bosses of European lenders are under pressure to boost their valuations and win over investors, who have been spooked by dividend bans and windfall taxes across the continent in recent years.

The biggest listed European banks have pledged €74bn in dividends and €47bn in share repurchases, a 54 per cent increase on the previous year's capital returns and far higher than every year since at least 2007, according to figures compiled by UBS.

Buybacks have been the biggest source of growth over the past three years, with just a few billion euros of repurchases a year across the 50 biggest banks in the years running up to 2020.

Since then, European banks have taken advantage of their turbocharged profits on the back of rapid interest rate rises to buy back stock at suppressed prices.

Investors have welcomed the capital returns with caution. "Banks need high yield and sustainable yield," said Antonio Roman, portfolio manager of the Axiom European Banks Equity fund. "We have the high yields, but there is a question mark on the sustainability."

The capital returns are a stark reversal from four years ago, when the European Central Bank ordered lenders to freeze dividends and share buybacks at the start of the Covid-19 outbreak, a decision that tarnished the reputation of the sector among international investors.

European lenders received a €100bn windfall over the past two years thanks to the difference between the interest they pay out on deposits and receive on loans, known as net interest income.

Among the most eye-catching distribution announcements this year are Italy's UniCredit, which promised to pay €8.6bn — its entire profit haul for 2023 — to investors. On Monday, Barclays pledged to return £10bn to shareholders over the next three years, while on Friday Standard Chartered said it would return $5bn over the same period.

But analysts have warned that the level of shareholder returns will start to drop next year, as central banks cut interest rates and lenders are forced to seek other revenue lines.

"Banks meaningfully increased capital return to shareholders, but this could be as good as it gets," said JPMorgan analyst Mislav Matejka. "The regulator might not be condoning much more favourable cash distribution to investors going forward."

European regulators have become more relaxed about share buybacks over the past couple of years as banks have built up strong capital levels, but they are understood to be uncomfortable with shareholder returns that are bigger than banks' annual profits.

This month UBS also said it would raise its dividend by 27 per cent to 70 cents a share in May and buy back up to $1bn of shares in 2024. The capital return programme was paused when it agreed to buy Credit Suisse last spring.

“Over the past few years, the European banking sector has dramatically improved its profitability, reduced risk and rebuilt its capital base to levels that far exceed regulatory requirements,” said Lars Förberg, managing partner at Cevian Capital, the activist investor that recently built a €1.2bn stake in UBS.

“But as a whole, the sector is valued like it’s worse than it used to be, not better.”

Spain’s Santander and Deutsche Bank, Germany’s biggest lender, have both announced plans to ramp up their shareholder returns in recent weeks, while state-backed Italian bank Monte dei Paschi di Siena announced its first dividend for 13 years.

Letter in response to this article:

Not my idea of redistribution / From Professor Bruce Lloyd, London South Bank University, London SE1O, UK
