The Profitability of EU banks

Hard work or a lost cause?

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Many European banks have struggled with low profitability since the financial crisis. This matters for more than just the banks and their shareholders. As is evident across Europe, low profitability can weaken the ability and willingness of banks to finance the wider economy and this in turn can weaken further the overall economy.

Why is bank profitability so low in Europe? This varies across countries and across banks. But stubbornly low net interest margins, high levels of non performing loans, high cost to income ratios, the impact of regulatory reform, and – for some banks – outdated business models are all common themes.

How can banks increase their profitability? This paper investigates some of the key drivers of bank profitability. Data analysis from KPMG Peer Bank indicates that, on average, an EU bank could increase its rate of return on equity by one percentage point if it could increase its net interest margin by 2.5 basis points, reduce its ratio of non performing loans to total loans and advances by 2.5 percentage points, or reduce its cost to income ratio by 25 percentage points.

This will not be easy. Net interest margins are under severe downward pressure as a result of low interest rates. Disposing of a substantial amount of non-performing loans in difficult economic conditions is a challenge. Many banks in Europe have, in general, made almost no progress in reducing their cost to income ratios since the financial crisis.

Some EU banks may boost their profitability through hard work. For others this is likely to be a lost cause.

We hope you find this publication insightful.

KPMG Financial Services Team

Key links

- **The profitability of EU banks – Hard work or a lost cause?**
- Visit www.kpmg.com/ecb for articles and insights from KPMG's ECB Office.
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Our team believes in knowledge and passion for what we do builds value. As such, we strive to proactively bring our clients top products to enable them to succeed in their business activities. At the forefront of advising banks on regulatory change, we are here to help you successfully navigate the complex maze of interlinked European regulations.

Let's meet and discuss on how we can add tangible value to your organization.