

# Bloomberg

---

## Euro-Area Bank Dividends Poised to Tumble

By Alexis Xydias - Jan 15, 2012

Euro-area [bank dividends](#) are poised to sink below the low set after the collapse of Lehman Brothers Holdings Inc. as regulators force lenders to bolster capital.

French, Italian and Spanish banks will have the most cuts after [UniCredit SpA \(UCG\)](#) and [Societe Generale SA \(GLE\)](#) scrapped payments for 2011, according to dividend forecasts by Bloomberg that are based on earnings estimates and options prices. Banks in the U.K. and [Sweden](#), outside the [euro zone](#), may keep or increase their payouts after regulators found they didn't need to raise more capital, the data show.

Lenders are under pressure to raise an additional 115 billion euros (\$146 billion) of capital by June to meet European rules. They're finding it harder to generate that money from earnings, which are forecast to [shrink](#) 20 percent from 2010 levels, or raise it from investors in rights offerings. Bank [stocks](#) in the region have declined 36 percent in the past year.

"Shareholders and regulators do not currently see eye to eye as regulators are asking the banks to do recapitalizations at the worst time possible," said Christophe Nijdam, an analyst at Alphavalue in Paris. "The big question mark will be the economic slowdown. The more severe it is, the higher the cost of risk and the more constrained the dividend-payment capability."

All four publicly listed French lenders, five of [Spain's](#) nine banks and nine out of 14 in [Italy](#) will cut or omit their dividends when they announce annual earnings, the Bloomberg estimates show. In all, 53 lenders in 11 euro nations will pay a combined 9.24 euros a share in dividends, 41 percent less than the previous year and 28 percent less than distributed for 2009, the year after Lehman's bankruptcy, the data show.

### 'Cold Wind'

"The cold wind of change is set to continue for some time," said Kieron Launder, the London-based chief investment officer at Schroders Private Banking, which oversees \$284 billion.

"European banks are likely to suffer roughly the same environment in 2012 as they did in 2011, from the markets as well as the heightened regulatory oversight."

The [European Banking Authority](#), which co-ordinates the work of national regulators, said last month that banks in [Greece](#), Spain, Italy, [Germany](#) and [France](#) had the biggest capital

shortfalls. The fresh capital should come from investors, retained earnings and lower employee bonuses, the EBA has said.

A Bloomberg gauge of [European bank shares](#) declined 32 percent in 2011, with 14 lenders, including [Commerzbank AG \(CBK\)](#) and [Lloyds Banking Group Plc \(LLOY\)](#), tumbling more than 50 percent. Excluding the 64 percent plunge in 2008, last year's drop was the biggest for the industry measure since at least 1997.

[Santander \(SAN\)](#), [BBVA \(BBVA\)](#)

The declines pushed the [dividend yield](#) for European banks to the highest level since 2003, excluding the period between November 2007 and April 2009. Investors in November got 4.2 percent of money put into bank shares back as dividends, data compiled by Bloomberg show.

While Spain's largest banks, Banco Santander SA in [Madrid](#) and Banco Bilbao Vizcaya Argentaria SA, based in Bilbao, may match the previous year's payments, five smaller lenders in the country are likely to cut theirs, according to the Bloomberg estimates. They include [Banco de Sabadell SA](#), [Banco Popular Espanol SA \(POP\)](#) and [Banco Espanol de Credito SA. \(BTO\)](#)

Santander said in a Jan. 9 statement it would maintain 2011 shareholder remuneration at 60 cents per share. BBVA Chief Financial Officer Manuel Gonzalez Cid said in an Oct. 27 presentation the bank would maintain its dividend policy. A spokesman for the lender declined to comment last week.

## Italian Banks

[Banco Popular](#) aims to keep its dividend payout at about half of 2011 earnings, a spokesman said by telephone. Banesto Chief Executive Officer Jose Antonio Garcia Cantera said on a Jan. 12 webcast for analysts that he couldn't comment on dividends. Officials at Sabadell weren't immediately available.

In Italy, UniCredit omitted its 2011 payment altogether on Nov. 14. [Banca Popolare di Milano Scarl](#) and [Banca Monte dei Paschi di Siena SpA](#) may cut their cash returns to investors, the Bloomberg projections show.

Annalisa Presicce, a spokeswoman for Popolare, didn't return an e-mail seeking comment. Monte Paschi Chairman [Giuseppe Mussari](#) declined to comment on the bank's dividend policy this year when asked on Jan. 13.

UniCredit plunged 45 percent in the four days though Jan. 9 after Italy's biggest bank priced a 7.5 billion-euro rights offer at a 43 percent discount to the Jan. 3 close, excluding the value of rights.

## French Bond Holdings

French lenders hold \$681 billion in debt issued to Greek, Irish, Italian, Spanish and Portuguese private and public borrowers, more than banks in any other country, according to data from the [Bank for International Settlements](#).

Societe Generale, France's second-largest bank, and [Credit Agricole SA \(ACA\)](#), the third-biggest, said last quarter they won't pay cash to shareholders. [BNP Paribas \(BNP\) SA](#) and [Natixis \(KN\)](#) may reduce their dividends by 29 percent and 26 percent respectively, the Bloomberg estimates show. A spokeswoman at Natixis declined to comment on the bank's dividend policy. BNP Chairman [Baudouin Prot](#) said the payout for 2011 will fall in line with earnings.

Societe Generale surged 7.3 percent on Nov. 8 after announcing its dividend cut, as investors bet the move will help the lender meet the EBA's capital requirements.

"Banks could cut dividends and still perform if investors deem that is the right thing to do," said Chris Wyllie, partner at Iveagh Ltd., a wealth-management firm in [London](#). Still, even if dividend yields make bank stocks look cheap, investors may be more interested in their valuations relative to their assets, or book value, he said.

## Price-to-Book

The Bloomberg European Banks and Financial Services Index traded in November at 0.6 times the reported value of its members' assets, a measure known as [price-to-book valuation](#). That compares with an average ratio of 1.52 since 2001 and is the second-lowest monthly ratio in the period, according to data compiled by Bloomberg.

Only one of seven Greek lenders tracked by Bloomberg still pays a dividend as banks in state bail-out plans are prohibited from doing so. The [Bank of Greece](#), the nation's publicly traded central bank, is forecast to cut its payout to 70 cents a share from 1.56 euros a year earlier. Irene Basia, a spokeswoman, said the lender won't make an announcement on its dividend until April.

In Germany, [Deutsche Bank AG \(DBK\)](#) may keep its dividend at 75 euro cents a share, the Bloomberg projections show. Commerzbank and [Deutsche Postbank AG \(DPB\)](#) haven't made payments since 2007.

## British Lenders

British lenders will fare relatively better, with HSBC Holdings Inc., [Barclays Plc \(BARC\)](#) and Standard Chartered Plc expected to raise dividends for a second year. [UBS AG \(UBSN\)](#), the

biggest Swiss bank, announced in November its first cash dividend in five years as Chief Executive Officer [Sergio Ermotti](#) shrinks the investment-banking unit.

Among the four Swedish lenders tracked by Bloomberg, [Swedbank AB \(SWEDA\)](#) may more than double its 2011 dividend while Svenska Handelsbanken AB and [Skandinaviska Enskilda Banken AB \(SEBA\)](#) may raise their payment by 5.6 percent and 33 percent respectively. [Nordea Bank AB \(NDA\)](#) will keep its payment unchanged at 0.29 euro cents.

U.S. bank shareholders may also receive a higher payment. Dividends at lenders in the world's biggest equity market may grow this year by 23 percent, their second annual increase, the Bloomberg estimates show.

Lenders aren't alone in reducing payments to shareholders as an economic slowdown eats into profits. Madrid-based [Telefonica SA \(TEF\)](#), Spain's largest telecommunications company, cut its dividend for the first time in a decade last month. Vienna-based [Telekom Austria AG \(TKA\)](#) followed by trimming the minimum payout for 2011 and 2012 by half.

## Earnings Risk

Even if the dividend reductions help European banks meet higher capital stipulations, the risk of a recession will remain, and its severity will determine future returns from bank shares, according to Didier Saint-Georges, who helps oversee \$58 billion at Carmignac Gestion in Paris.

"The question is whether valuations have become attractive," said Saint-Georges, "Our answer is not positive at this stage. Given returns are still falling, and earnings expectations are still too optimistic in our opinion, we do not think valuations to be particularly compelling, given the balance sheet risks."

To contact the reporter on this story: Alexis Xydias in London at [axydias@bloomberg.net](mailto:axydias@bloomberg.net)

To contact the editor responsible for this story: Andrew Rummer at [arummer@bloomberg.net](mailto:arummer@bloomberg.net)