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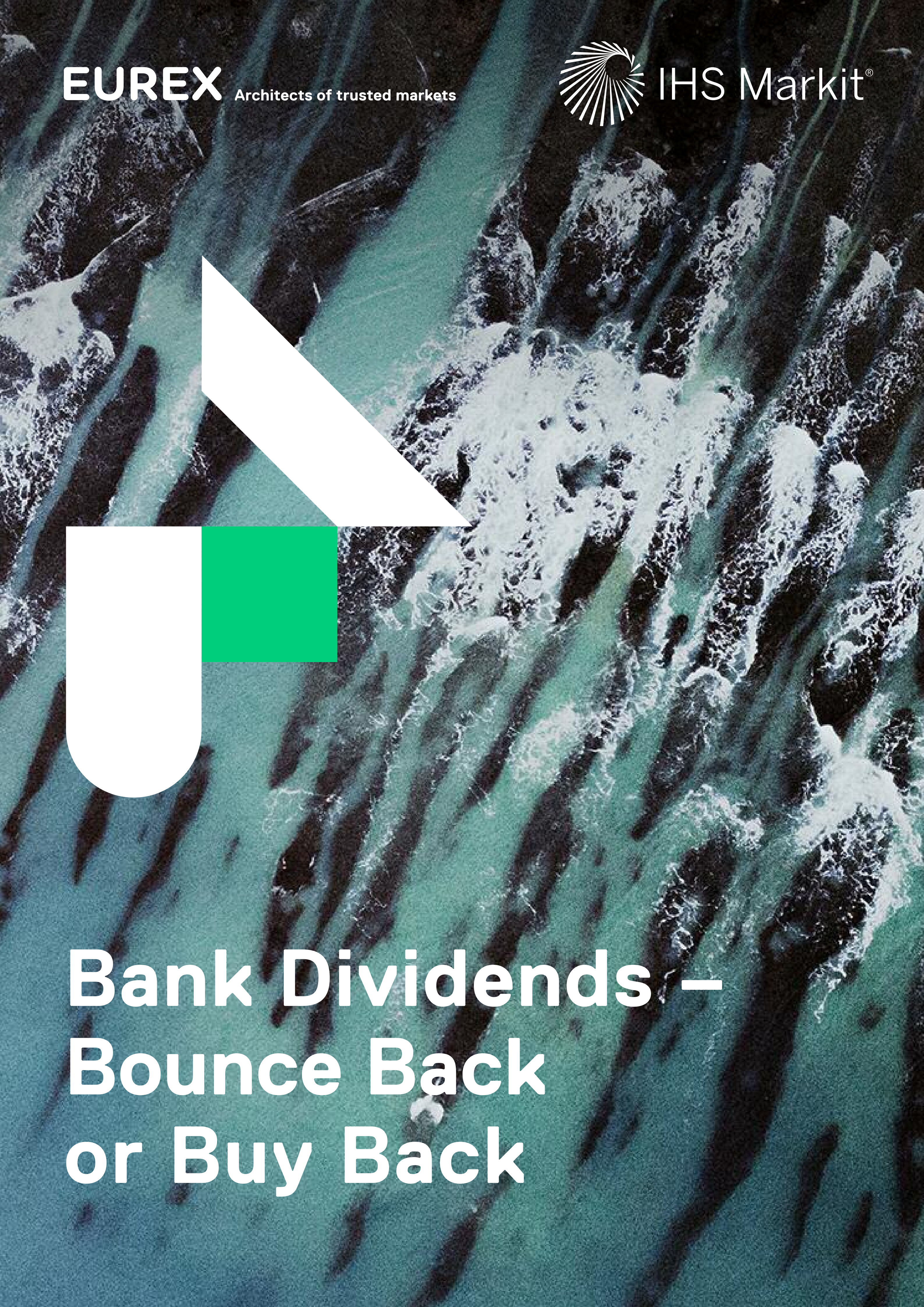


Bank Dividends – Bounce Back or Buy Back

Bank Dividends

Pre-pandemic financial institutions were one of the largest contributors to dividend distributions in Europe (and globally). This reinforced the perspective that the sector's recovery following the global financial crisis was in its final stages. 2019 was a good year revenue-wise, including the bank sector, and dividend expectations were robust going into 2020. The Dec-20 expiry of the EURO STOXX® Banks Index Dividend Future closed at 5.46 on 20 January 2020 – and the underlying price index (SX7E) was at 94.85. This meant, in simple dividend yield terms, healthy expectations of around 5.75%. The ECB also maintained its guidance on distributions policies being prudent and subject to maintaining minimum capital requirements, so the levels of certainty around dividends were relatively high.

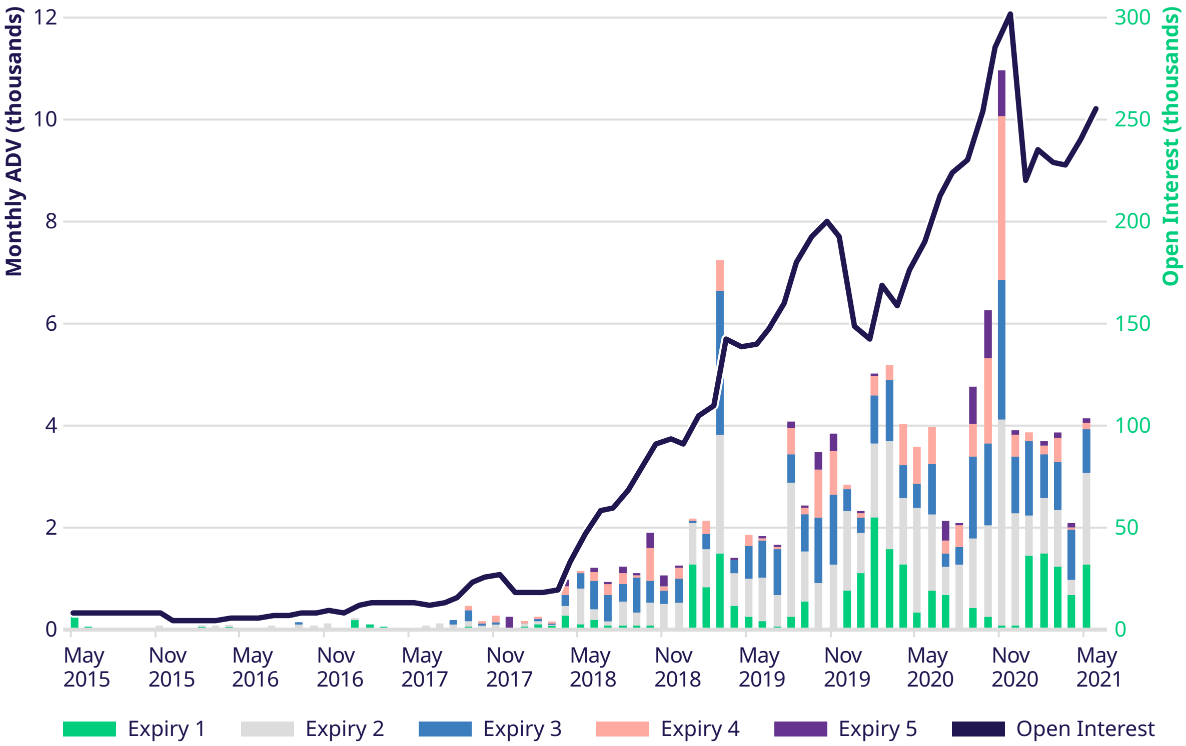
Moving forward to Autumn 2021, we now know with hindsight that, overall, the financial sector weathered the pandemic reasonably well, with some hiccups along the way, of course. In July, the ECB lifted the restriction on dividend payments and other forms of distributions from 30 September 2021 onwards, having introduced them early in the pandemic and extended such restrictions twice more. It was also the case that the financial sector wanted to remunerate shareholders as ongoing suspension of any payout potentially limited the ability to raise further capital when needed.

This anomaly led European derivatives exchanges to provide "what-if" scenarios for these institutions paying dividend distributions out of distributable earnings, but because of the restrictions, in an extraordinary process. Now, coming into Q4 2021, we are in a situation where shareholder distribution is back on the agenda. However, the methodology of that distribution remains uncertain. Will it be cash dividends, or will buybacks be used? In many cases, these institutions would have allocated previously distributable reserves during the pandemic into loss-absorbing capital, which would have also impacted the decisions made by management boards.

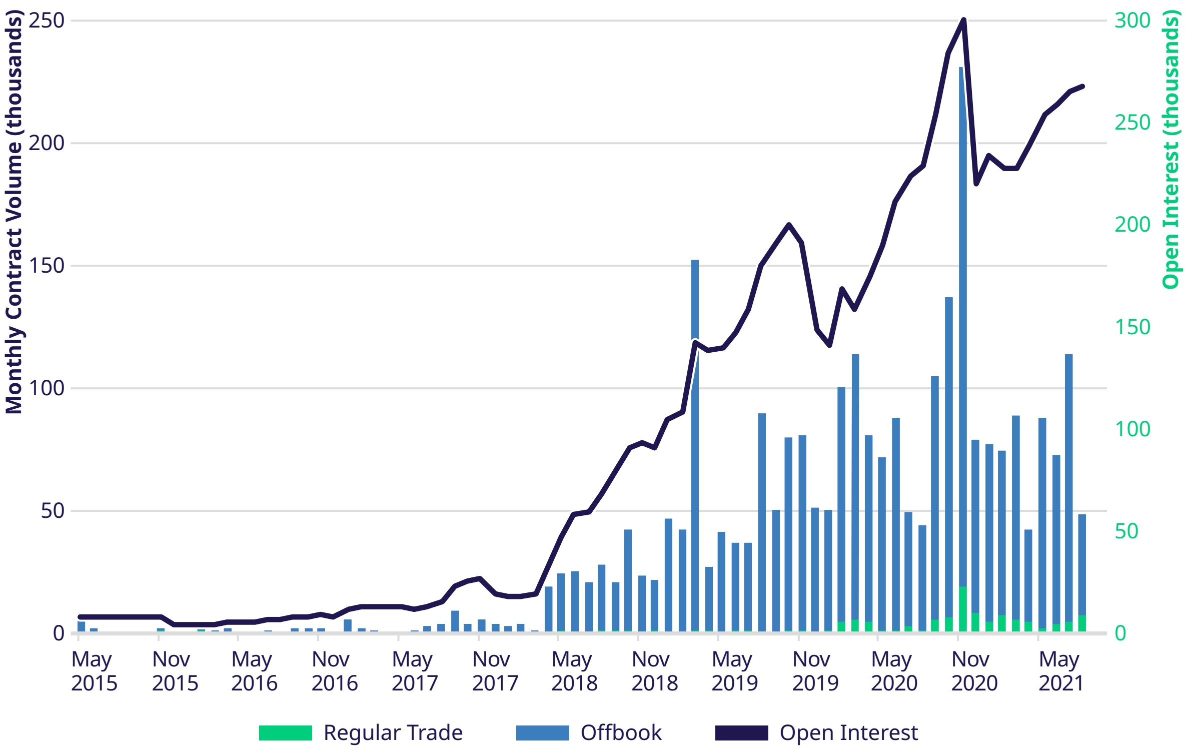
For derivatives markets, these uncertainties are problematic. A regular dividend does not adjust single stock futures and options and is included in single-stock and index dividend futures payouts. However, these products do not account for buybacks and special dividends are treated as a corporate action (with a different index treatment.) Therefore, the key in derivatives is not just *what* the banks distribute but *how*.

As always, with uncertainty comes hedging needs and opportunity. The EURO STOXX® Banks Index Dividend Futures (Eurex Product ID: FEBD / underlying dividend points index SX7ED) has traded over 670k futures YTD, an increase of 2020 – itself a record year – and now has active liquidity provision on-screen to allow price discovery. The pricing for the Dec-22 contract is around 4.6 dividend index points, giving a yield of circa 4.6%, meaning lower expectations than back in January 2020. This may reflect the uncertainty in not just how much shareholders will be rewarded but by what means. One thing is certain – the sharp increase in liquidity in the dividend futures allows investors to express a view either way.

FEBD ADV by expiry – Open interest



FEBD monthly volume by trade type

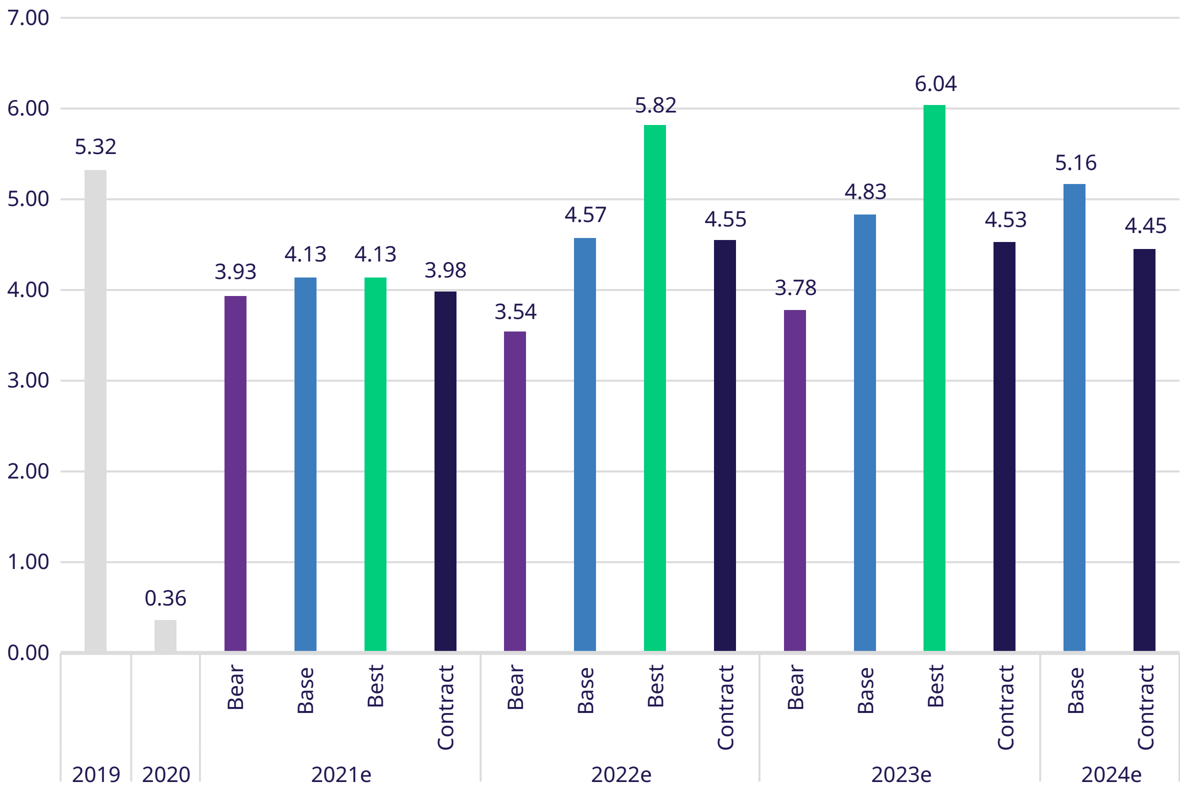


Buyback weights on the SX7E DIPs recovery

1 October 2021

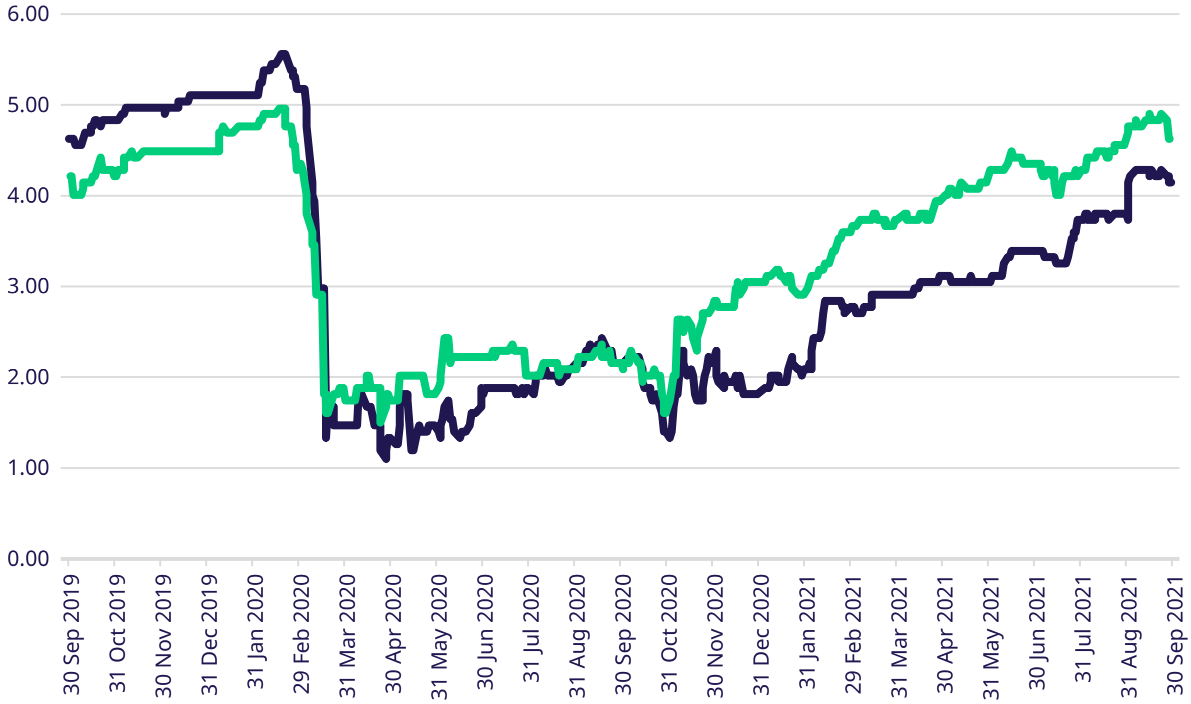
- On 30 September, the dividend restrictions for the European Banks have been lifted. However, SX7E DIPs are not expected to reach pre-pandemic level before 2024.
- Following the addition of **Nordea bank** in the index, SX7E points have increased across all the maturities. IHS Markit predicts SX7E DIPs to be slightly above market in 2021 and 2022.
- The discrepancy between our Bear and Best cases for 2022 and 2023 is linked to the role of buyback in the shareholder distribution. It is expected to have a negative impact on the payout ratio for cash dividends for banks such as **BNP Paribas**, **Banco Santander**, **ING** and **Societe Generale**.
- We are seeing a great discrepancy in the payout ratio for cash dividends ranging from 20% for **Banco Santander** to 70% to **Intesa Sanpaolo**.

SX7E DIPs



Source: IHS Markit, FactSet, Stoxx

SX7E DIPs contract price



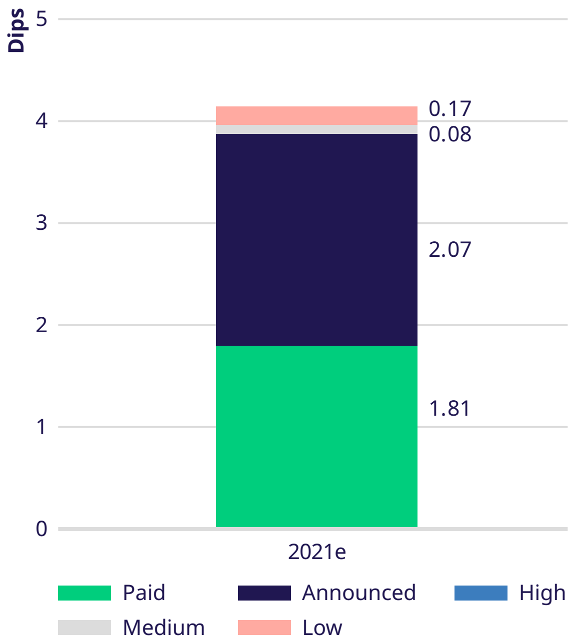
Source: IHS Markit, FactSet, Stoxx

2021 SX7E DIPs analysis

We have summarised our current DIPs estimates and projected a “bear-case” and a “best-case” where we take a more pessimistic/optimistic view on the dividends for 2021 and 2022. Since the beginning of the 2021 contract, 1.81 pts have gone ex-date and we predict another 2.32 pts until the third Friday of December 2021.

Expiry period	Bear case DIPs	Base case DIPs	Best case DIPs
2021 YTD	1.81	1.81	1.81
Remaining 2021 DIPs	2.12	2.32	2.32
2021 DIPs	**3.93**	**4.13**	**4.13**

2021e Dips Status



Source: IHS Markit

Remaining estimated ex-date for the 2021 contract:

Stock Name	Type	Ex-date	Ex-date confidence	Comments
KBC	CR	18 Oct 21	**Low**	Given the fact that KBC do not need shareholders' approval for the CR distribution, we expect an ex-date mid-October.
Raiffeisen	Spec	10 Nov 21	**Low**	For the extraordinary installment, the ex-date is expected to fall on 10 November. The company will be required to conduct an EGM to approve this dividend installment. As the EGM has not been called yet, there is a risk the date might fall later than our forecast.
KBC	Int	17 Nov 21	**Medium**	The ex-date of the interim dividend tends to fall in mid-Nov., mainly on a Wednesday.
Erste	Spec	23 Nov 21	**Low**	We expect the ex-date to fall in the second half of November after the management confirmed the EGM should take place in that period. Since the dividend dates have not been confirmed yet, there is a risk the date might fall later than our forecast.
Sabadell	Int	22 Dec 21	**Medium**	We expect the ex-date for the int installment to fall on the second last week of December.
Bankinter	3rd Int	23 Dec 21	**Medium**	Ex-date tends to fall in late March, June, September and December.

The below table compares our December 2021 DPS estimates with the dividend futures traded on Eurex:

		December-21 expiry							
		IHS Markit						Eurex	
Stock Name	Ex-date	Base DPS (EUR)	Base DIPS	Bear DPS (EUR)	Bear DIPS	Best DPS (EUR)	Best DIPS	DPS (EUR)	vs. IHS Markit
KBC	18 Oct 21	2.000	0.109	0.000	0.000	2.000	0.109	2.000	0%
Raiffeisen	10 Nov 21	1.000	0.029	0.000	0.000	1.000	0.029	1.035	2%
KBC	17 Nov 21	1.000	0.054	1.000	0.054	1.000	0.054	1.000	0%
Erste	23 Nov 21	1.000	0.064	0.000	0.000	1.000	0.064	1.000	0%

2021 Base case scenario

- We expect the catch-up dividend payments (related to FY19) from **Erste**, **KBC** and **Raiffeisen** to happen in October and November in line with the guidance communicated by the management.

- The interim dividend of **KBC** of EUR 1.00 should trade ex-dividend on 17 November in line with the usual pattern seen in the previous years.

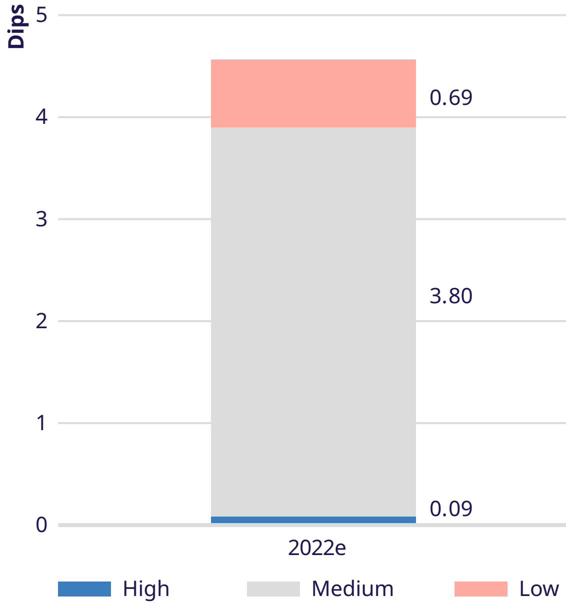
2021 Bear case scenario

- The catch-up dividend payments (related to FY19) from **Erste**, **KBC** and **Raiffeisen** are delayed towards the end of December or even January.

2022 SX7E DIPs analysis

Expiry	Bear case DIPs	Base case DIPs	Best case DIPs
March 2022	0.01	0.02	0.02
June 2022	2.75	3.60	4.49
September 2022	0.20	0.23	0.30
December 2022	0.59	0.72	1.00
2022 DIPs	**3.54**	**4.57**	**5.82**

2022e Dips Status



Source: IHS Markit ®2021 IHS Markit

Estimated ex-date close to the quarterly expiries:

Stock Name	Type	Ex-date	Ex-date confidence	Comments
Nordea	YR	25 Mar 22	**Medium**	For the Finnish companies, the ex-date falls one business day after the AGM. We are expecting Nordea to hold its AGM on the fourth Thursday of March i.e., 24 March 2022 in line with FY20 and FY19 (before AGM was postponed).
Raiffeisen	Fin	22 Jun 22	**Low**	For FY21's ordinary dividend installment, the ex-date is expected to fall on 22 June. It has usually ranged in the 2nd half of June.
Bankinter	Int	22 Sep 22	**Medium**	Ex-dates used to fall in late March, June, September and December.
Sabadell	Int	23 Dec 22	**Medium**	We expect the ex-dates for the int installment to fall on the second last week of December.
Bankinter	3rd Int	26 Dec 22	**Medium**	Ex-dates used to fall in late March, June, September and December.

The below table compares our December 2022 DPS estimates with the dividend futures traded on Eurex:

		December-22 expiry							
		IHS Markit						Eurex	
Stock Name	**Ex-date**	**Base DPS (EUR)**	**Base DIPS**	**Bear DPS (EUR)**	**Bear DIPS**	**Best DPS (EUR)**	**Best DIPS**	**DPS (EUR)**	**vs. IHS Markit**
Nordea	25 Mar 22	0.620	0.477	0.520	0.400	0.640	0.493	0.530	–15%
Unicredit	18 Apr 22	0.400	0.193	0.288	0.139	0.474	0.229	0.429	7%
ABN Amro	25 Apr 22	0.500	0.051	0.210	0.021	0.820	0.083	0.350	–30%
ING	26 Apr 22	0.330	0.278	0.130	0.109	0.450	0.379	0.350	6%
BBVA	27 Apr 22	0.130	0.187	0.108	0.155	0.148	0.213	0.146	12%
Santander	03 May 22	0.049	0.181	0.035	0.131	0.055	0.206	0.051	5%
KBC	09 May 22	2.000	0.108	1.800	0.097	2.200	0.118	1.500	–25%
Erste	16 May 22	1.600	0.102	0.900	0.057	1.680	0.107	1.416	–12%
Credit Agricole	18 May 22	1.000	0.294	0.750	0.221	1.100	0.324	0.852	–15%
Deutsche Bank	20 May 22	0.200	0.089	0.150	0.067	0.400	0.178	0.301	51%
Caixabank	20 May 22	0.120	0.112	0.050	0.047	0.170	0.159	0.129	8%
BNP Paribas	23 May 22	2.900	0.721	2.610	0.649	3.540	0.880	3.214	11%
Societe Generale	23 May 22	1.800	0.331	1.180	0.217	2.500	0.460	1.617	–10%
Intesa Sanpaolo	23 May 22	0.072	0.284	0.070	0.275	0.115	0.452	0.092	28%
ING	05 Aug 22	0.210	0.177	0.180	0.152	0.250	0.210	0.207	–1%
ABN Amro	12 Aug 22	0.250	0.025	0.230	0.023	0.306	0.031	0.271	8%
BBVA	10 Oct 22	0.091	0.131	0.069	0.099	0.130	0.187	0.067	–26%
Santander	31 Oct 22	0.052	0.194	0.043	0.161	0.088	0.329	0.061	17%
Intesa Sanpaolo	21 Nov 22	0.085	0.334	0.070	0.275	0.105	0.413	0.086	1%

2022 Base case scenario

- As part of its new policy, **ING** mentioned potential buyback within its 50% payout target. The majority of the 50% payout will remain cash dividend, with interim exclusively in cash and representing one-third of the half year net profit. However, no information has been communicated yet by **ING** concerning the part of buyback in the final distribution. Thus, our base case scenario is assuming a 5% buyback, leading to 45% payout ratio forecast.

- Like **ING**, **UniCredit** and **SocGen** have reset their dividend policy. **UniCredit** included a 20% buyback into its 50% payout target, leading us to foresee a 30% payout ratio. For **SocGen**, the new dividend distribution includes share buyback, with up to 10% from its 50% payout which could be allocated to share repurchases. So, we are currently assuming a 5% buyback for **SocGen** and are following a 45% payout with a FY 2021 DPS of EUR 1.80.

- There is uncertainty on the payout ratio **BNP** will use next year. Historically the bank followed a payout ratio of 50% but the distribution policy will be reviewed in February 2022. We suspect BNP may introduce a share buyback component like ING and Societe Generale. Therefore, we are setting our estimates using a payout ratio of 45%.

- Following the new dividend policy unveiled by **Banco Santander**, we use a payout ratio of 20% for cash dividends. For **BBVA**, we use the top range of the payout range of 35%– 40%.

- **Credit Agricole** intends to follow a payout ratio of 50% for cash dividend and top up the distribution with another EUR 0.40 per share to be distributed in the next 2 to 3 years. Therefore, our DPS forecast for FY21 of EUR 1.00 contains a top-up distribution of EUR 0.20.

- For **Nordea** and **Intesa Sanpaolo**, we applied the top of the range guidance with 70% payout ratio.

- As part of its resumption policy, **Deutsche Bank** aims to return EUR 5bn to shareholders through share buybacks and dividends starting in 2022. The bank has accrued EUR 575m (or EUR 0.28 per share) in the first half of 2021 using a payout ratio of 33%, but the company said it should not be seen as an indication of level of distribution. In addition, we think a significant part of the shareholders distribution will be through buyback considering the current valuation of the bank. Thus, we are using a more conservative payout ratio of 20% (EUR 0.20 per share) for cash dividends. We do not expect a resumption of **Commerzbank** before 2024.

2022 Bear case scenario

- We use more conservative EPS projections for most of the banks including **Banco Santander**, **BNP**, **Credit Agricole**, **Deutsche Bank** and **Intesa Sanpaolo**.

- For **ING**, we lowered the payout to 35% by considering a 15% buyback part. The 35% payout has been applied to the low-end EPS estimates.

- We use the bottom range of the payout ratio range target for **BBVA** (35%).

- In the case of **Société Generale**, we apply a cash dividend payout ratio of 40% (bottom range of the guidance) with buyback of 10%. We also use more conservative earnings estimates.

- For **Credit Agricole**, we see a DPS of EUR 0.90 assuming the bank is not able to pay a top-up dividend (vs. a target of EUR 0.40).

- For **Nordea**, we used the lower part of the range (60%) using more conservative earnings estimates.

2022 Best case scenario

- Assuming no buyback portion from the French Banks (**BNP**, **Société Générale**), as well as **ING**, we applied a 50% payout to the average of the highest EPS estimates.

- We apply a much higher payout ratio (around 40%) for **Banco Santander** from the 2022 interim dividend.

- **Nordea**, **Intesa** and **Unicredit** best case scenarios are based on the upper range of the payout using the upper bound of EPS estimates, with translates into EUR 0.650 for **Nordea** (70% payout), EUR 0.210 for **Intesa** (70% payout) and EUR 0.470 for **Unicredit** (30% payout).

- For **Deutsche Bank**, we are using a more aggressive payout ratio of c. 35% using more optimistic projections.

- In the case of **Credit Agricole**, we see a DPS of EUR 1.10 assuming the bank can pay a top-up dividend of EUR 0.30 out of the EUR 0.40 remaining to be distributed.

Appendix A: Summary of dividend policy for European Banks

Banks	Country Code	12-month yield	Dividend policy
ABN AMRO	NL	12.05%	Payout at 50% of sustainable profit, excl. exceptional items that significantly distort profitability. Additional distributions will be considered when capital is within/above the target range and will be subject to other circumstances. The combined distribution will amount to at least 50% of sustainable profit. The interim dividend equals to 50% of the sustainable result attributable to owners of the parent company.
BANCO BPM	IT	4.42%	Banco BPM disclosed in the 2020–2023 Strategic Plan dividend payments at c. EUR 800m throughout the life of the plan, with a payout ratio at least at 40%.
SANTANDER	ES	5.88%	For FY21, target of a total shareholder remuneration of c. 40% of the Group's underlying profit. Such remuneration to be split in equal parts in cash dividend payments and share buybacks for an amount equal to the dividend, payable in November and in May.
BANK OF IRELAND	IE	4.00%	The group expects that dividends will increase on a prudent and progressive basis and, over time, will build towards a payout ratio of around 50% of sustainable earnings.
BANKINTER	ES	6.10%	Bankinter aims a payout ratio at around 50% (which is what they had been distributing in the past) and dividends paid in cash.
BAWAG	AT	14.14%	In terms of capital generation and return, the company targets an annual dividend payout of 50% of net profit and will deploy additional excess capital (above 12% CET1).
BBVA	ES	4.28%	BBVA intends to resume its dividend policy targeting a payout ratio between 35%–40% (cash dividends). Also, the company disclosed that it intends to carry out a share buyback of c. 10% of Group's shares.
SABADELL	ES	2.05%	The bank guided at the 2021 Investor Day that intends to distribute dividends at around 30% payout ratio.
BNP PARIBAS	FR	8.13%	The Group's distribution policy will be reviewed upon the closing of its 2021 full-year accounts, in particular as part of its 2025 strategic plan. The Group's new distribution policy will be announced when it will present its full-year results in February 2022.
CAIXABANK	ES	4.58%	The Board of Directors approved the 2021 Dividend Policy, which envisions the distribution of a cash dividend of 50% of consolidated net profit adjusted to reflect the extraordinary impacts arising from the merger.
COMMERZBANK	DE	-	The bank plans to increase its payout ratio in the midterm to 40%. The bank's aim is to, by FY23 at the latest, return excess capital to its shareholders by means of dividends as well as share buybacks. The latter, of course, is subject to receiving the prior permission of the ECB.
CREDIT AGRICOLE	FR	5.71%	CASA plans to distribute cash only dividends with a 50% payout ratio of attributable net income. A top-up dividend of EUR 0.4 will be distributed in the next 2 to 3 years.
DEUTSCHE BANK	DE	1.85%	Deutsche Bank aims to return EUR 5bn to shareholders through share buybacks and dividends starting in 2022. The bank has accrued EUR 575m (or EUR 0.28 per share) in the first half of 2021 using a payout ratio of 33%.
ERSTE	AT	7.46%	Erste Group's dividend policy has been guided by the bank's profitability, growth outlook and capital requirements. Between 2016 and 2019, the payout ratio was between 34% and 40%.
FINECOBANK	IT	6.21%	Considering the growth rates and the capital light business model, the bank thinks it will be able to have a high dividend policy in the next years, always in the respect of capital requirements.

Banks	Country Code	12-month yield	Dividend policy
ING	NL	12.66%	Pay-out ratio of 50% of resilient net profit to be paid out in cash or a combination of cash and share repurchases, with the majority in cash. The interim dividend is expected to be paid in cash and to represent one-third of the half year net profit.
INTESA SANPAOLO	IT	10.33%	Distribution of cash dividends corresponding to a payout ratio of 70% for 2021.
KBC	BE	6.95%	KBC targets a payout ratio (dividend + AT1 coupon) of at least 50% of the consolidated profit.
NORDEA	FI	6.51%	Dividend policy stipulates a dividend payout ratio of 60–70%, applicable on profit generated from 1 January 2020.
RAIFFEISEN	AT	8.68%	Group intends to distribute between 20 and 50 percent of the consolidated profit. Raiffeisen Bank International strives to have a consistent dividend development.
SOCIETE GENERALE	FR	6.85%	SocGen targets a payout ratio of 50% of underlying Group net income, which could incl. a share buyback component of up to 10%, with the dividend component being paid in cash.
UNICREDIT	IT	3.69%	UniCredit will re-instate its capital distribution policy from 2021 onwards, distributing 50% of underlying net profit to shareholders composed of a 30% target cash dividend payout of the underlying net profit and 20% for share buyback. Based on the market environment at that time, the Group may also review the split between cash dividend and share buyback.

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