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Will Paige

Profit jump expected at UK's biggest banks despite mortgage market disruption

Article

The roundup: The UK economy has been rocked by the government's disastrous mini-budget, which triggered the pound to plummet to record lows against the dollar last week and forced the Bank of England to step in to calm markets. We look at the impact on the banking sector and what's in store for lenders going forward.

Mortgage mayhem: Interest rates are currently at a 14-year high and they could reach almost 6% next year, signaling that the days of banks offering cheap mortgage products could be coming to an end.

- Lenders responded to the mini-budget by **dropping more than 40% of mortgages**, with **HSBC**, **TSB**, and **Santander** all pulling products.
- Roughly **one in 10 deals were withdrawn** last week, per mortgage monitor Dashly.
- Several big lenders have also increased their fixed rates.

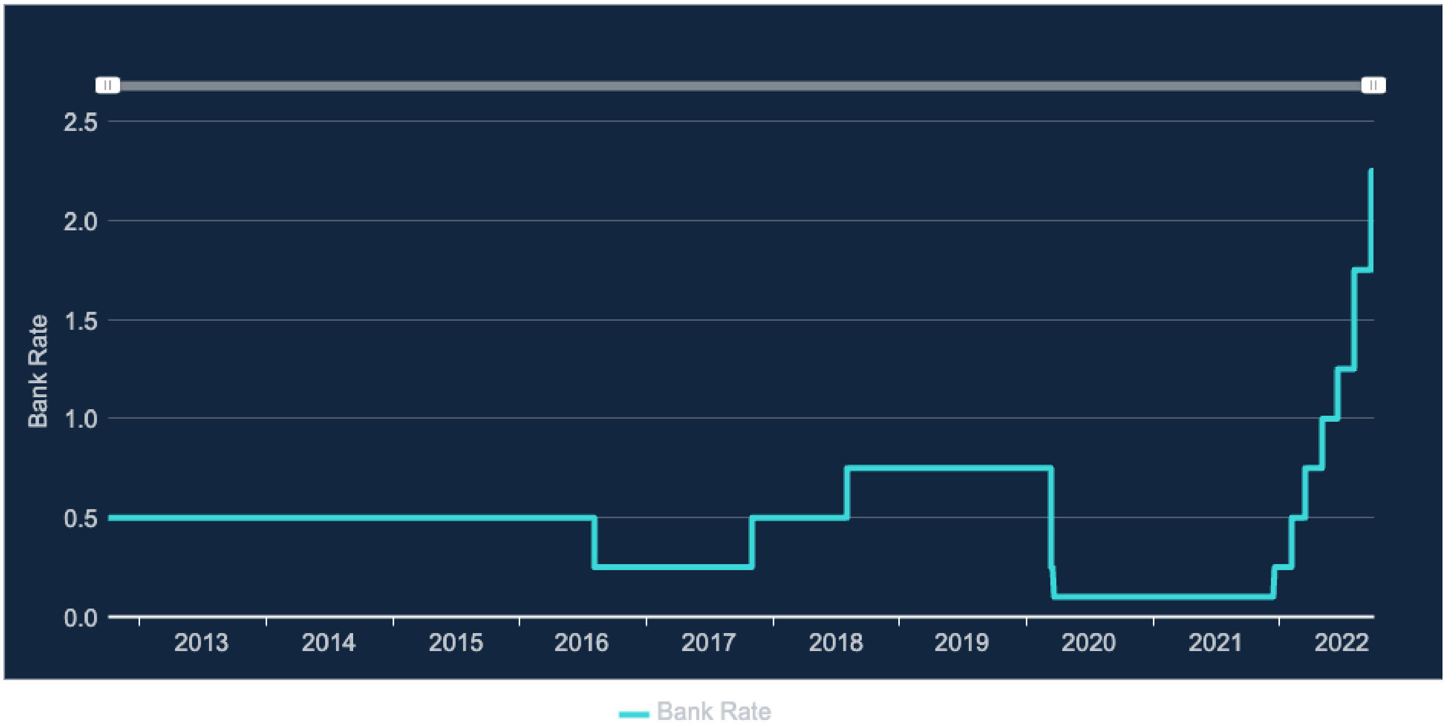
Savers being squeezed: Interest rates for savers should climb with the central bank's base rate rising. But the Financial Conduct Authority is investigating 70 firms over claims they're not passing on gains to consumers.

Many of the best savings rates are offered by less established lenders and challenger banks, although these are often well below the most recent inflation level of 9.9% for August.

- Sharia-focused lender **Al Rayan Bank** offers one of the best rates for instant savings accounts at **2.35%**, while **Yorkshire Building Society** pays **2%** and neobank **Chase** offers **1.5%**. In contrast, Barclays initially pays **0.15%** on its everyday easy access savings account, while NatWest's instant saver offers just **0.4%**.
- It's the same story for notice savings accounts: Agricultural neobank **Oxbury** offers one of the best rates at **2.52%**.
- And for fixed-rate savings accounts, challenger **Atom Bank** is among the market leaders, offering **4.11%**.

Neobanks can capitalize on their superior rates to pick up new customers. Finding the best savings accounts will become a pressing issue for consumers as the cost of living crisis forces them to rethink their personal finances.

UK interest rates



(Source: Bank of England)

Expected results: Despite dropping certain mortgage products and offering modest saving rates, profits at major UK banks are forecast to widen as lenders benefit from higher interest rates.

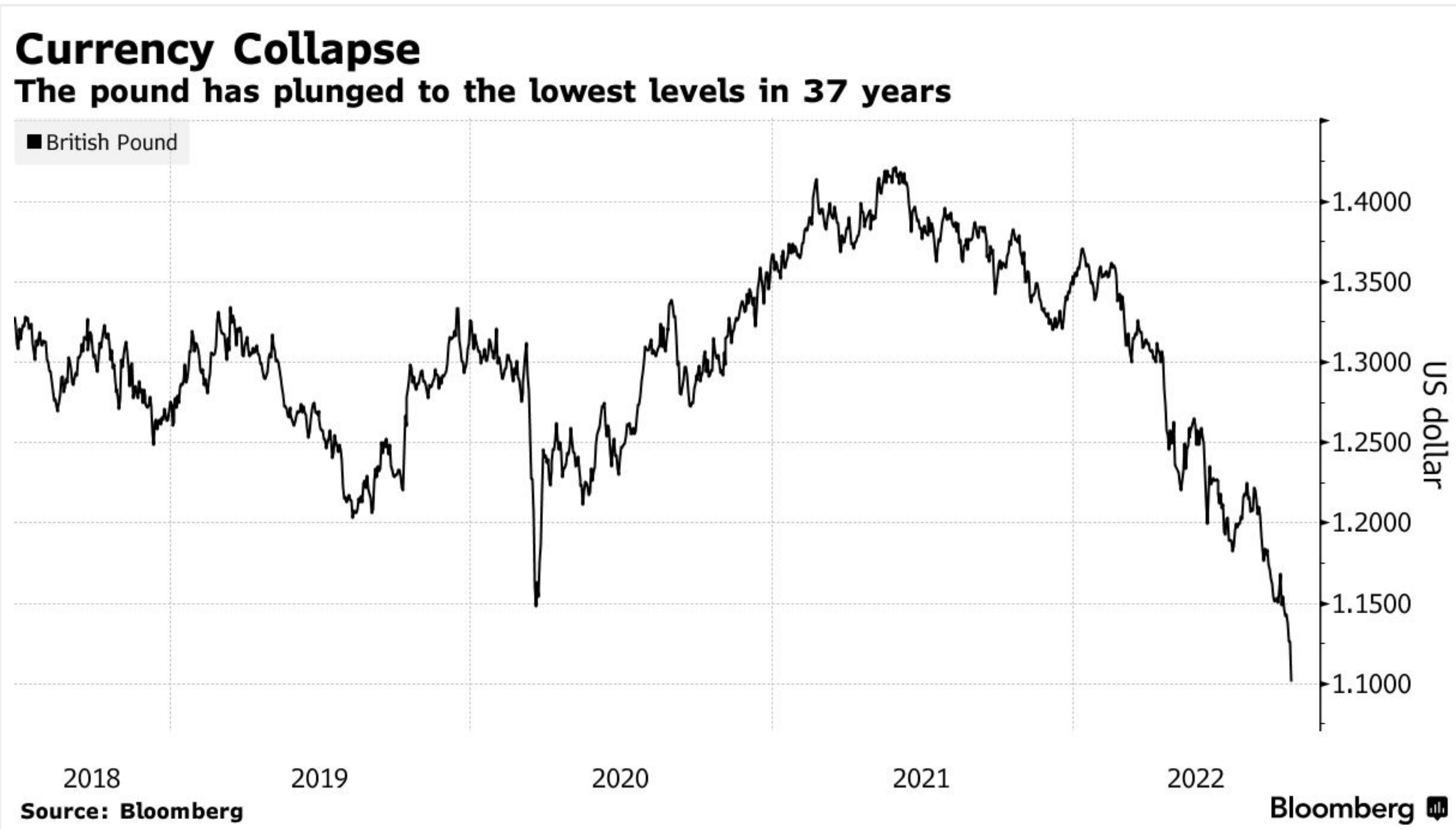
- In the last three years, **Barclays**, **HSBC**, **Lloyds**, and **NatWest** have approximately doubled their reserves, according to the Financial Times.
- The four lenders **hold almost £900 billion** ($1 trillion) in the Bank of England, which would generate around £20 billion ($24 billion) at the 2.25% interest rate.
- All four of the country's biggest banks are **projected to grow net interest income annually in 2023**, per Market Intelligence consensus analyst estimates.
- **Revenues at NatWest, Lloyds, and Barclays are predicted to jump by £12 billion** ($14 billion) from 2022 to 2024, per Jefferies.

Incumbent banks are going into this downturn with revenue growth expected and bigger reserves compared to 2008, which should give them a buffer to withstand future turmoil and better handle a recession.

The fortunes of neobanks have been mixed.

- Some are showing promising signs of growth like **JPMorgan's** **Chase** and **Monzo**. Others are successfully turning a profit, such as **Allica Bank**, **Starling**, and **Atom Bank**.
- But SME-focused **Bank North** has gone bust and most neobanks struggle to turn a profit in a fiercely competitive market filled with well-funded incumbents.

With fintech funding shrinking and economic unpredictability reigning, the next few months are likely to weed out weaker neobanks that don't have the same reserves as incumbents to cushion against a market slump.



(Source: Bloomberg)