

UK banks show strong performance in Q4 but face unique challenges in 2023

Article

The news: UK banks faced unique challenges during Q4 2022 that their US counterparts didn't.

Here's a look at the results—and what set the UK apart from other regions.

Profits were mostly up:

- **Lloyds Bank** **reported** a net profit of £5 billion (\$5.9 billion) for the quarter, up from £4.12 billion (\$4.85 billion) in the same period the prior year.
- **HSBC** **ended** Q4 with net income of \$4.89 billion, up 142% YoY.
- **NatWest** **reported** an operating profit before tax of £1.4 billion (\$1.65 billion) for the quarter, up from £543 million (\$639 million) in Q4 2021.
- **Barclays'** profits **declined** 4% YoY.

High interest rates fueled net interest income (NII):

- Lloyds reported NII up 26% YoY to £3.6 billion (\$4.2 billion).
- HSBC's NII surged 41%, hitting \$9.57 billion.
- NatWest's NII increased 10.2% to £2.9 billion (\$3.4 billion) YoY.
- Barclays' NII came in at £5.9 billion (\$6.9 billion), up 13%.

Some banks had one-off events:

- Barclays is still dealing with impairments related to over-issuing securities in the US. Its investment bank's return on equity also fell to 6.4% for the quarter, down from 9.9% in Q4 2021.
- HSBC is dealing with pressure from major shareholder **Ping An** to divest its Asian operations. It's also considering a special dividend for shareholders after it sells its Canada banking business later this year.

What's happening in the UK?

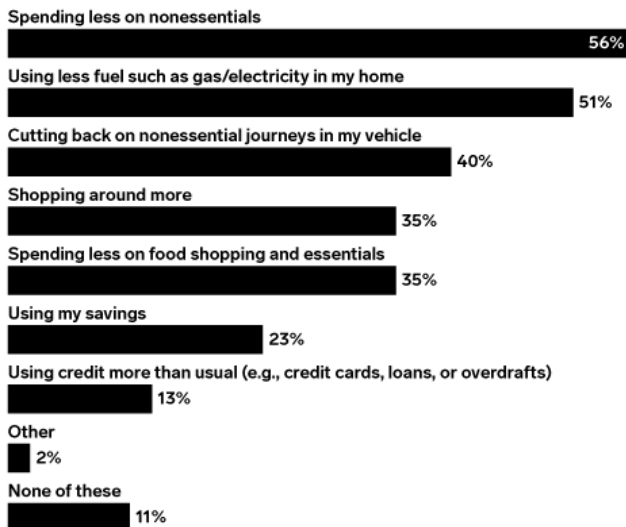
- **Cost-of-living crisis:** UK citizens face near-record inflation. Consumers are asking their banks for help to weather the storm, but many **don't trust their bank will do anything**. But there's some hope UK inflation has peaked—January CPI was still at 10.1% YoY but **fell** for the third consecutive quarter.
- **Mini-budget mayhem:** When former Prime Minister Liz Truss introduced sweeping tax cuts funded by government borrowing, the pound plummeted, asset markets spiraled, and

mortgage rates shot through the roof. Those effects are expected to last through much of 2023. Some forecasts predict the UK's economy will [shrink](#) in 2023.

- **Banks under fire:** Despite calls for help from consumers, many [UK banks are being criticized](#) for not passing the benefits of higher interest rates along to customers in the form of better savings rates. But banks are [holding out](#), largely because consumer debt repayment remains healthy.

Activities Conducted by Adults in Great Britain Because Their Cost of Living Has Increased, May 2022

% of respondents



Note: ages 16+
Source: Office for National Statistics (ONS) - UK, "Public opinions and social trends, Great Britain: 27 April to 8 May 2022," May 13, 2022

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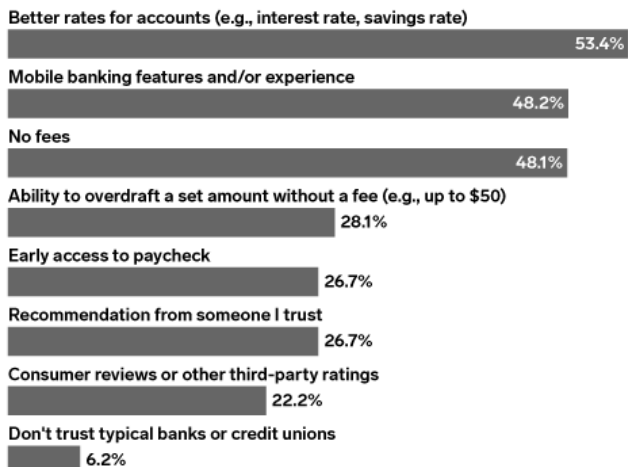
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The bottom line: UK banks' strong Q4 performance beat banks in other regions, but the outlook in the UK contrasts sharply with the cautious optimism of banks in the US.

UK consumers are beginning to flounder under rising rates and inflation, and many will likely turn to financial institutions that can help them save. UK banks will need to approach 2023 with customer compassion,—or risk losing their base to [more generously paying neobanks](#).

Reasons for Opening a Neobank Account According to US Mobile Banking Users, Sep 2021

% of respondents



Source: Insider Intelligence, "US Mobile Banking Emerging Features Benchmark 2021," Dec 2021

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