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Jenna McNamee

UK banks fared well in Q3, but they're preparing for a rough road in 2023

Article

The news: The four largest UK banks released their Q3 2022 earnings and outlooks for 2023. The results showed the banks in relatively strong financial positions, but the economic downturn in the UK has banks on guard.

Theme 1: Profits were a mixed bag.

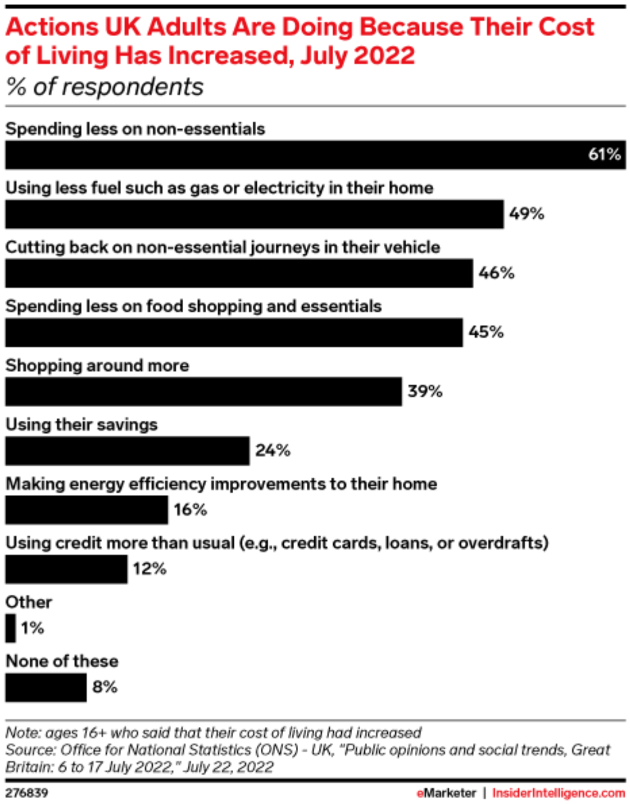
- **NatWest's** profit before taxes **rose 11% YoY,** but was **down 22% from last quarter.** The bank cited increased impairment provisions as the reason for the quarterly drop.
- **Barclays'** profits before taxes **jumped 6% YoY**, powered by strong fixed income trading and rising interest rates. The positive result signals a recovery from an earlier year trading error regarding the overissuance of US securities.
- **Lloyds'** pre-tax profit **fell 26%.** The bank also listed increased impairment charges as the driver.
- **HSBC** saw a profit before tax **drop of 42% YoY** after it sold its operations in France and upped its impairment budget.

Theme 2: Rising interest rates means banks improved their net interest margins.

- NatWest reported a **27 basis point increase** in net interest margin to 2.99%, driving revenues to $4.63 billion and beating analysts' expectations.
- Lloyds Bank reported its net interest margin at 2.98% for Q3, **up 15% YoY.**
- Barclays also benefited from an increase in net interest margin, which **rose to 2.78%** and pushed revenues to $7.01 billion for the quarter.
- HSBC's net interest margin came in at **1.57%, up 38 basis points YoY**, and by 22 basis points from last quarter.

Theme 3: Inflation and the cost of living crisis means banks are preparing for bad loans and an uptick in delinquencies.

- Barclays registered impairment charges of **£381 million ($448 million)** for the quarter.
- Natwest tucked away net impairments of **£242 million ($285 million)** in Q3.
- HSBC set aside credit provisions of **$1.1 billion.**
- Lloyds put away a **£668 million ($786 million) provision**.



What's ahead? As the UK heads into a cold winter dragged on by a major energy crisis, banks are depending on elevated interest rates to keep them above freezing water.

The historic regime changes, the mini-budget implementation and reversal, and the fallout and recovery of the pound are surely putting pressure on banks as Q4 unfolds.

- The provisions for loan delinquencies hit banks' profits hard in Q3, but their early preparations for the fallout of the cost of living crisis should cushion the blow if and when consumers begin to default on their loans.
- Many of the banks are expecting a dip in housing prices in the coming months. NatWest predicts a **7%** drop in home prices next year. Lloyds also **estimates an 8% drop** in prices. But both adjusted their net interest margin guidance up for 2023 as they expect interest rates to continue to give them a boost.

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