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Global Banking Annual Review 2023

Figures from the Nordics
November 2023

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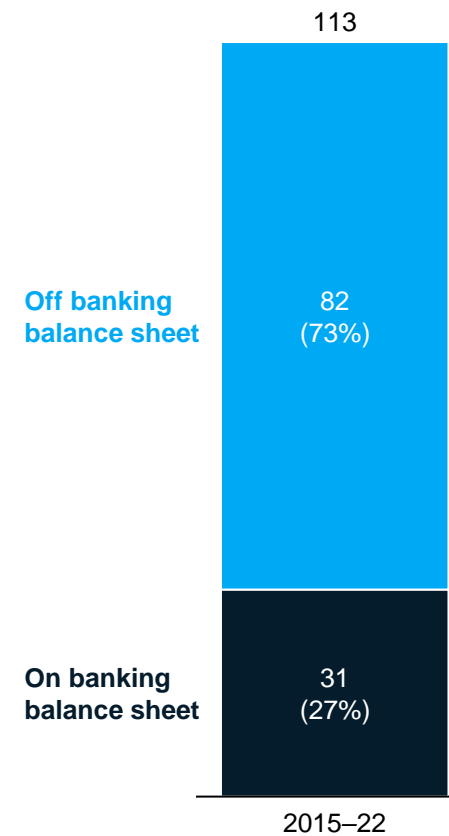
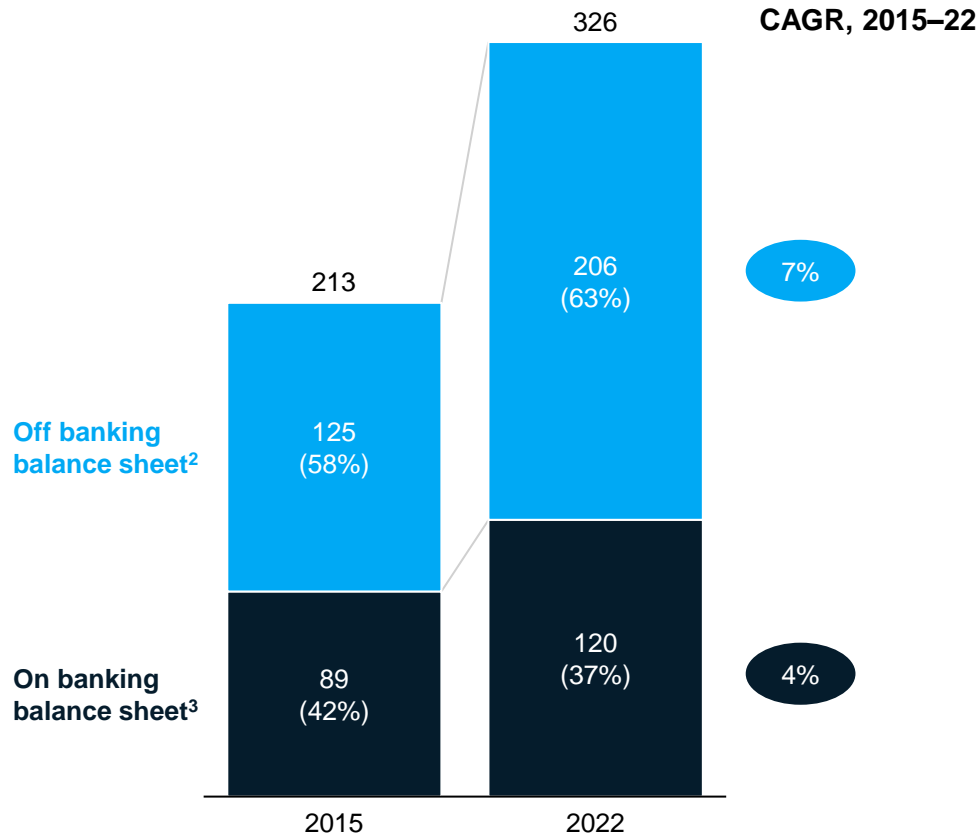


More than 70 percent of the net increase of financial stock happens off-balance-sheet

Sources of global financial funds,¹ global except China, \$ trillion



Net increase,⁴ global except China, \$ trillion



¹Methods of raising capital to fund lending activities, investment initiatives, and operations.

²Including sovereign wealth funds, public pension funds, digital assets, private capital, alternatives, retail assets under management (AUM), insurance and pension AUM, and other Institutional AUM.

³Including corporate and retail deposits, bank bonds, other liabilities, and equity.

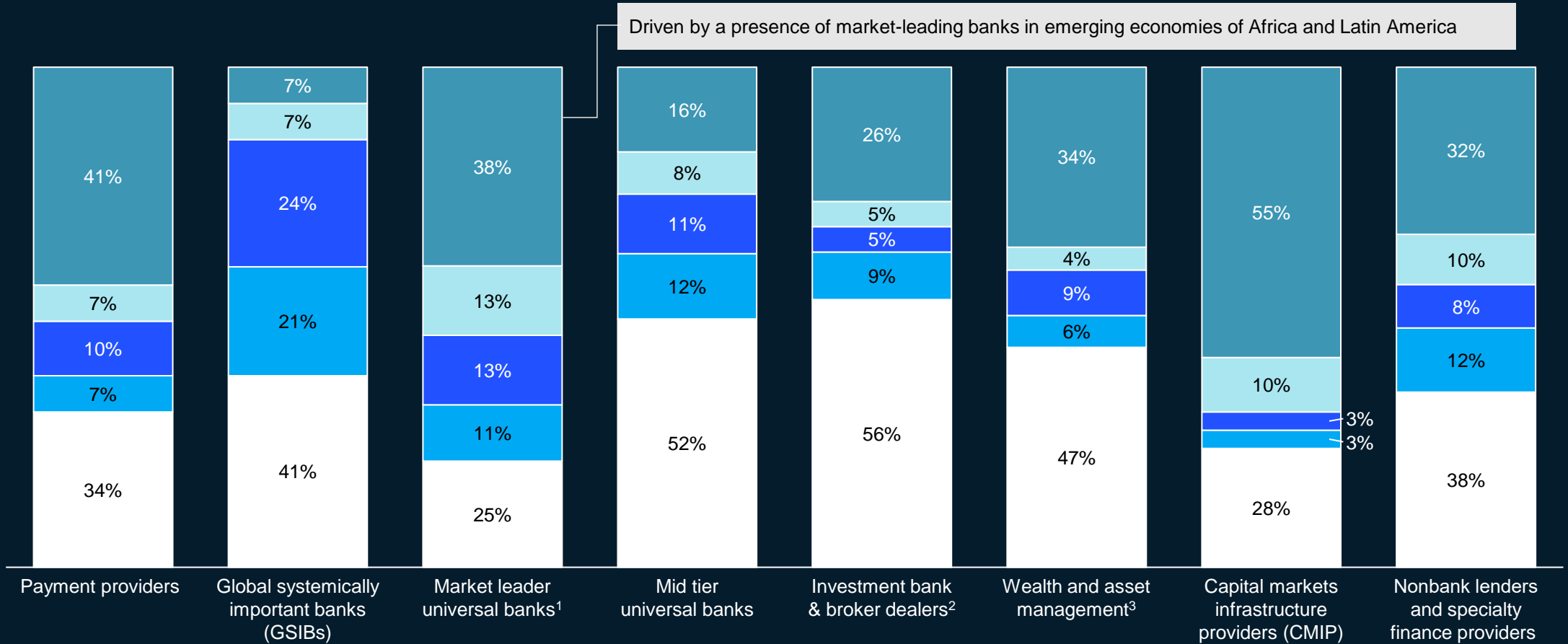
⁴Calculated as the net difference between the 2022 and 2015 positions.

Note: Traditional lending to middle-market and large corporate is increasingly being provided by private capital players, some of which have more than \$100 billion in assets, making them equivalent to a formidably sized “bank”. As of the second quarter of 2023, these funds had raised more than \$90 billion and had more than \$400 billion of dry powder to lend. (Loan sizes are also increasing). Private capital already makes up a significant portion of leveraged finance. Globally, these nonbank financial firms account for 14 percent of all lending

Successful institutions exist in every subsector, albeit with much dispersion

Distribution of financial institutions by ROE, 2022 estimated

■ ROE 14% and above
 ■ 12% to <14%
 ■ 10% to <12%
 ■ 8% to <10%
 ■ ROE <8%



Driven by a presence of market-leading banks in emerging economies of Africa and Latin America

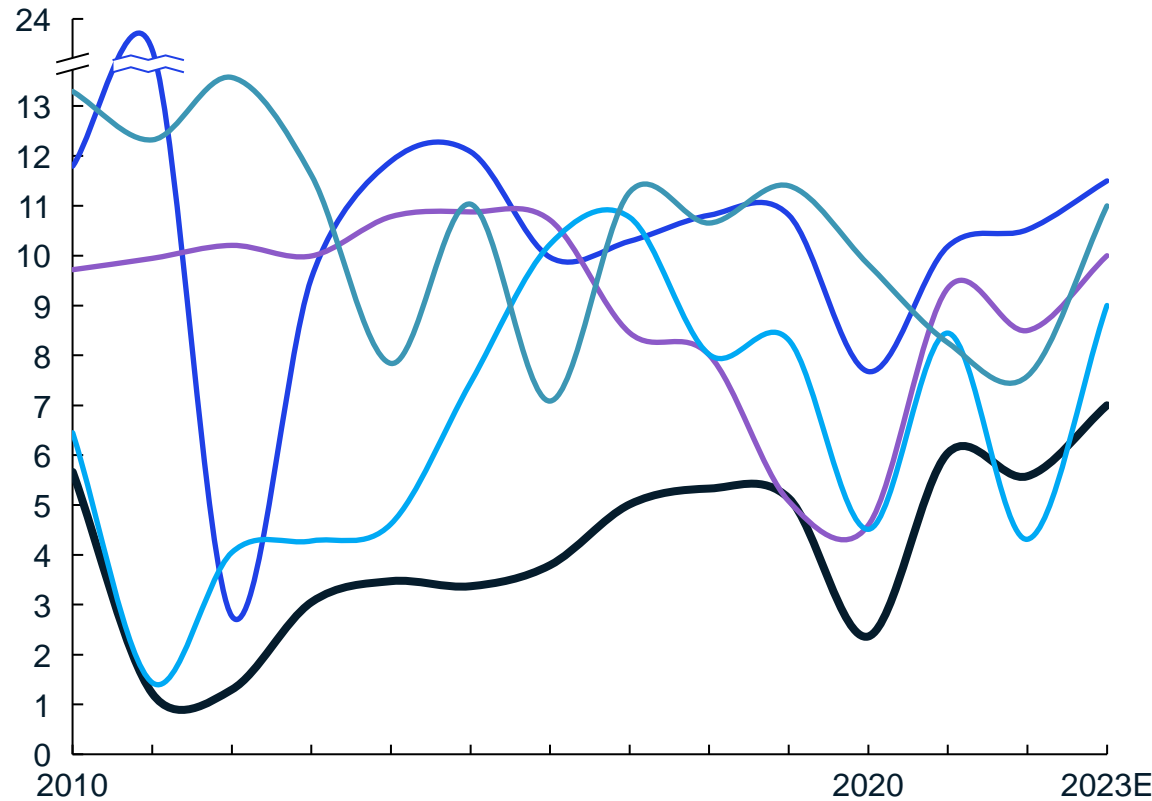
¹Domestic market leader universal bank with >10% of share in assets (excluding GSIBs).

²Includes sales & trading

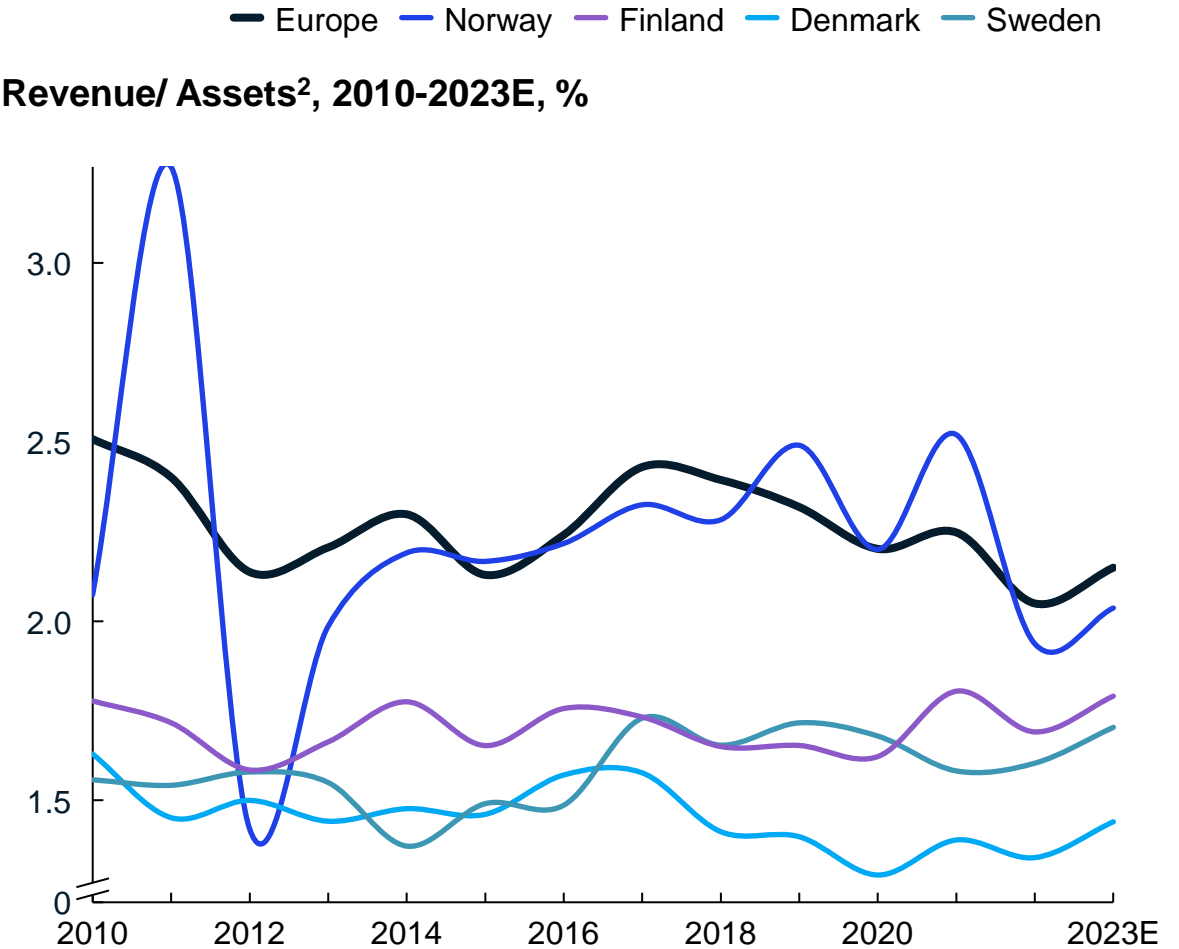
³Includes traditional asset managers, nontraditional intermediaries, and sponsors.

Nordic banks' profitability has historically been higher than the European average, however the region lags in efficiency to utilize assets to generate revenue

ROE¹, 2010-2023E, %



Revenue/ Assets², 2010-2023E, %

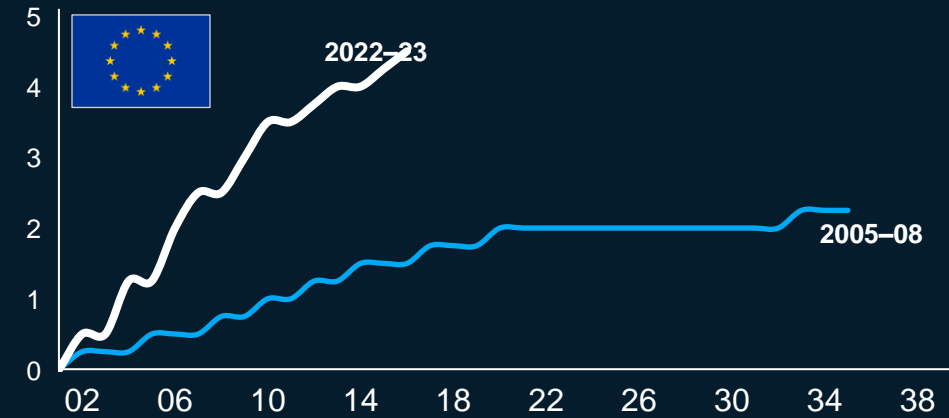
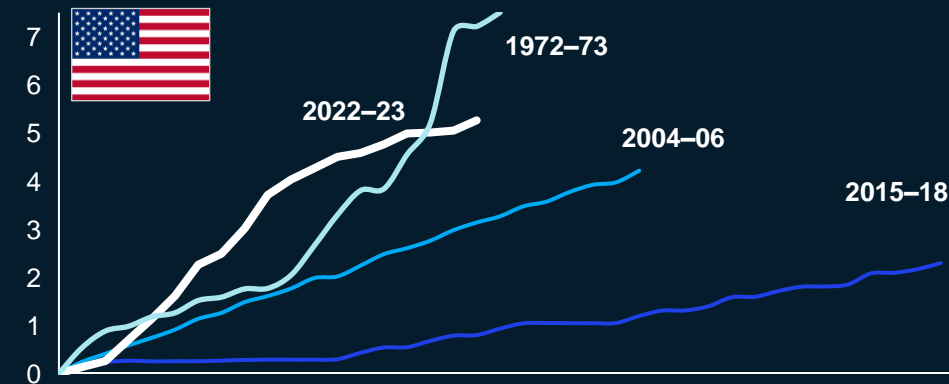


1. Based on a sample of ~3,000 global largest banks in terms of assets. Profit after tax over average equity
2. Operating income/average assets

The macroeconomic outlook is uneven, with varying growth expectations and rapid increases in interest rates; Austria growth expected to be slower than European average

	GDP growth, FY 2022–23, ³ %	Inflation, FY 2023, ³ %	Change in policy rate, FY 2022–23, ² basis points
USA	1.8	4.5	+500
Eurozone	0.9	5.3	+450
Denmark	0.0	4.8	+395
Finland	0.0	5.3	+450
Iceland	2.3	8.0	+650
Norway	2.1	4.9	+325
Sweden	-0.5	6.8	+375

Pace of historical rate hikes¹
percentage points vs months in rate hike cycle



¹Calculated as the difference between the policy rate during the cycle and the policy rate at the beginning of the rate hike cycle.

²Between Mar 2022 and September 2023.

³Forecast by the International Monetary Fund (IMF)

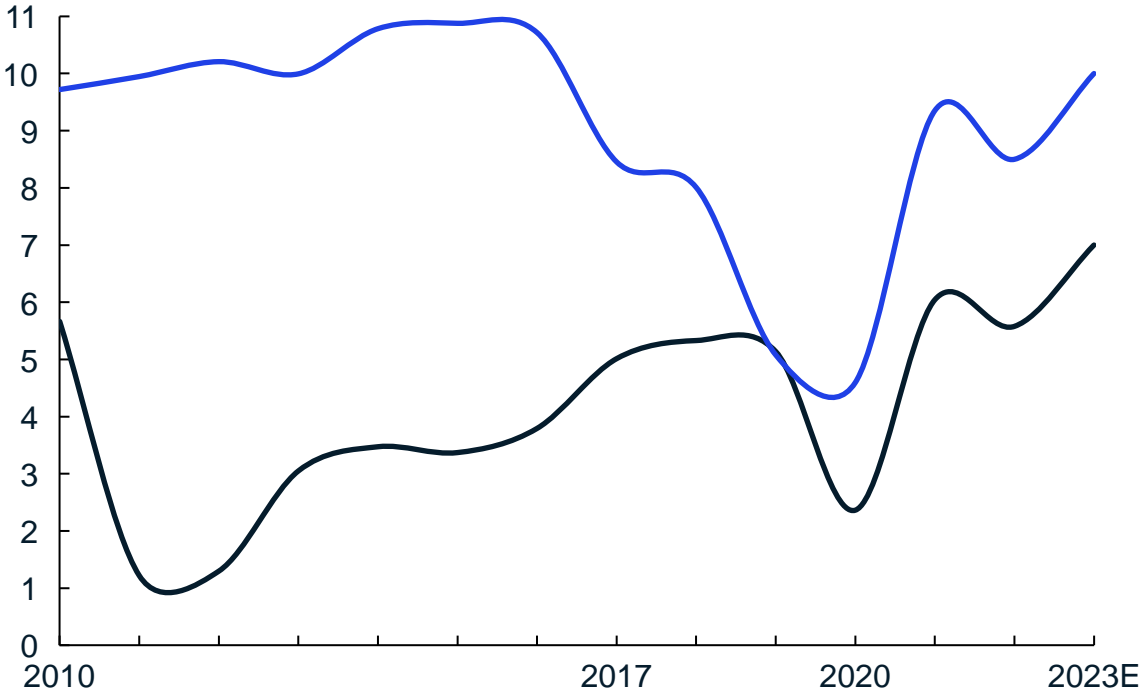
Source: ECB; Federal Reserve; IMF World Economic Outlook report

Finland's profitability has historically been higher than the European average

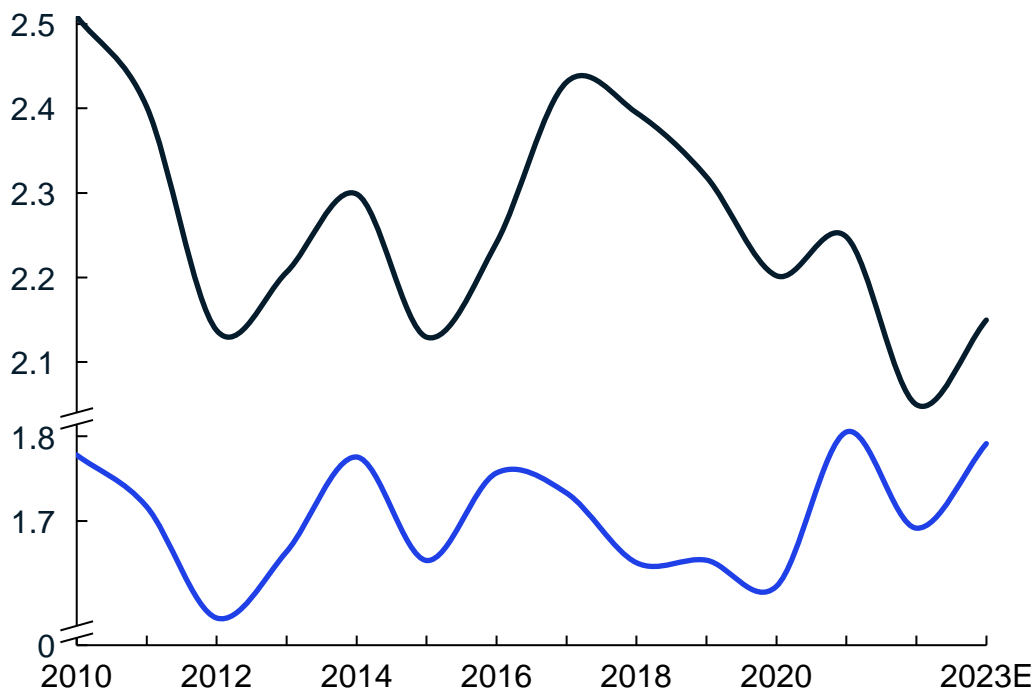


— Europe — Finland

ROE¹, 2010-2023E, %



Revenue/ Assets², 2010-2023E, %



1. Based on a sample of ~3,000 global largest banks in terms of assets. Profit after tax over average equity
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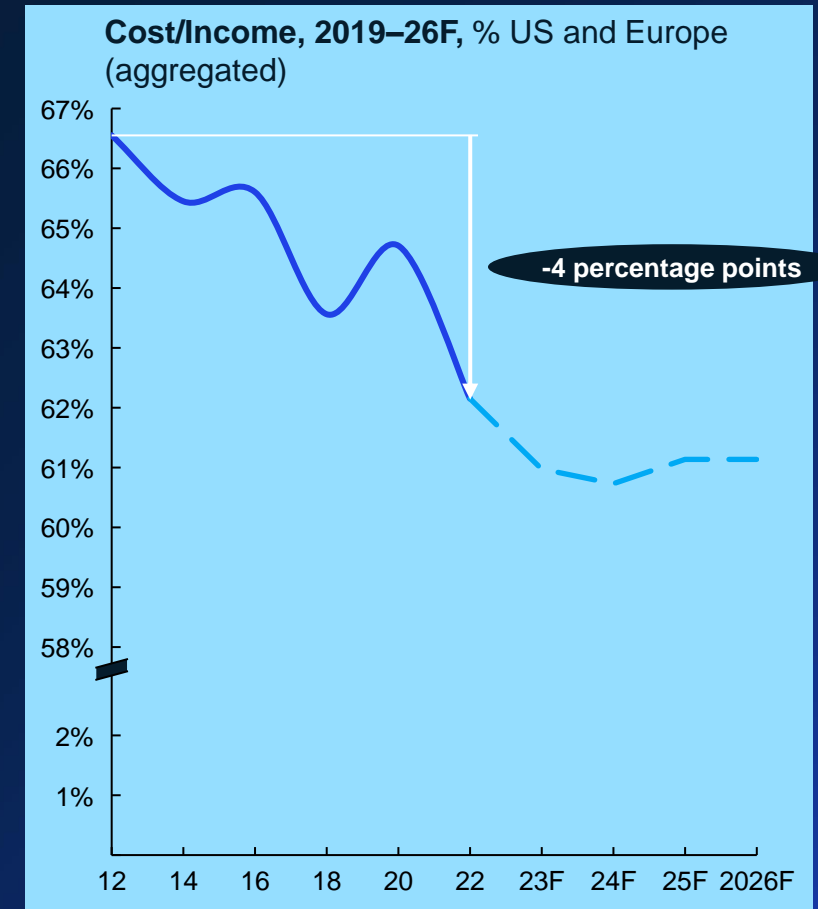
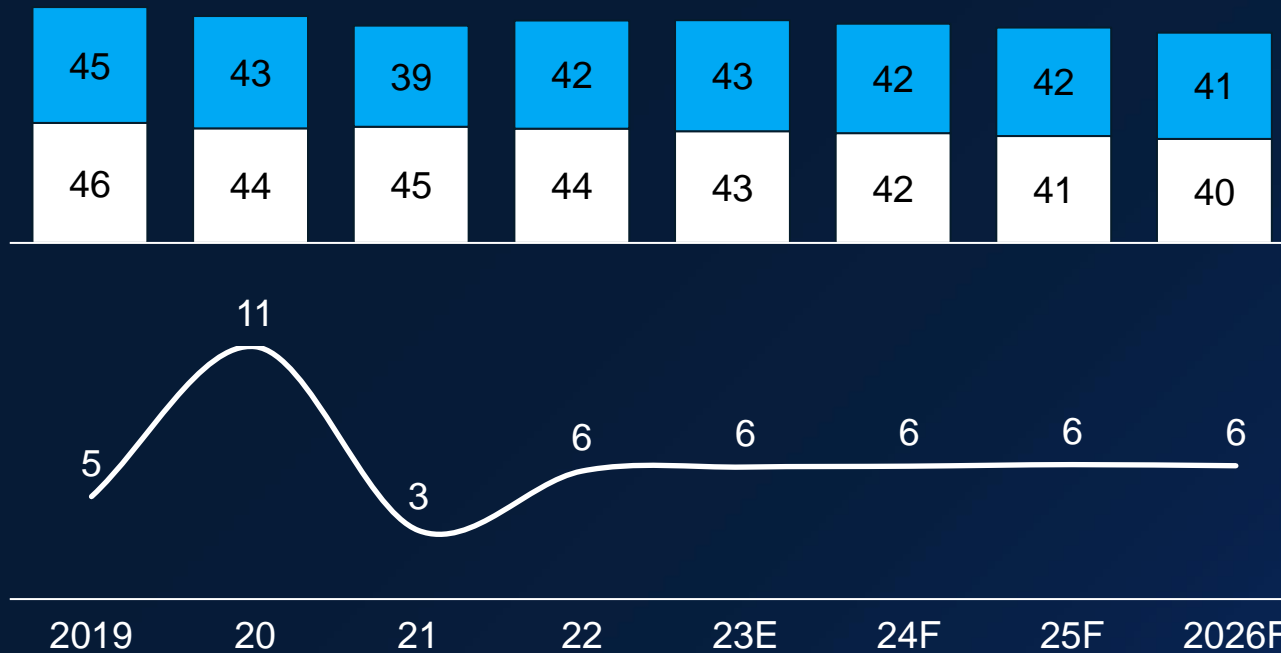
Overall margins are expected to compress, impact would be somewhat offset by better efficiency



Banking margins,¹ Finland

Basis points

— Risk cost margin Interest margin Fee margin



¹Margins calculated on average exposure volume (assets and liabilities).

Pockets of opportunity in everyday and transaction banking

Estimates, Aug 2023



Historical growth, 2018–22, \$ billion (2022 FX)



Forecast growth, 2022–26, CAGR \$ billion (2022 FX)

<0% 0–3% 3–6% >6%

Banking revenue historical growth (2018–22) and outlook (2022–26)¹

Revenue after risk, estimate delta 2018-22 and 2022-26, color represents CAGR

Country	Retail banking				Wholesale banking									
	Consumer financing		Mortgage		Deposits and payments ²		Brokerage ³		Transaction banking		Financing ⁴		Total ^{5,8}	
Western Europe	-5	-1	22	-9	23	76	6	6	74	60	-18	-19	101	114
Nordics ⁶	-0.1	0.3	1.2	0.8	3.6	4.0	0.1	0.4	4.7	3.6	-3.0	1.0	6.6	9.9
Denmark	-0.3	0.0	0.2	-0.1	1.3	0.6	-0.2	0.1	1.3	0.7	-1.3	0.4	1.1	1.6
Finland	0.2	0.0	0.0	0.1	0.1	0.9	0.1	0.0	0.5	0.5	0.0	-0.1	0.9	1.3
Norway	-0.3	0.1	0.8	0.0	1.2	1.4	0.1	0.1	0.4	0.6	-0.2	0.2	1.9	2.3
Sweden	0.2	0.2	0.3	0.8	1.0	1.1	0.2	0.2	2.5	1.8	-1.5	0.6	2.7	4.6
United Kingdom	-4	-2	0.3	-2	6	17	-1	0.3	32	24	-12	-11	21	25
Rest of WE ⁷	-0.5	0.6	20	-7	13	56	7	6	38	33	-3	-9	74	79

1. Revenues after risk, estimated change; 2. Includes revenues for CASA deposits; 3. Includes distribution of mutual funds, insurance, and pension funds; 4. Includes specialized finance; 5. Totals do not include CMIB, micro lending, and asset management 6. Includes Denmark, Finland, Norway, Sweden 7. Includes Austria, Belgium, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Portugal, Spain, Switzerland 8. Totals may not add up due to rounding up of revenue

Key takeaways

Consumptions loans and new mortgages growth is likely to slow as debt becomes expensive and higher inflation impacts saving in the developed markets

Impact on Wholesale lending would be varying (e.g., demand is likely to increase for working capital loans, but CAPEX lending demand may decline as investments get delayed)

Divergent movement in product profitability may lead to **accelerated decoupling of the banking value chain**, impacting universal banks

Banks are expected to **gain from higher rates in the short term especially on deposits and transaction banking**; but in the long-term, margins will normalize as higher rates are passed on to clients and interest rate subsidies from current levels