GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

GSIBS' RESULTS CONTINUED TO BEAT MARKET EXPECTATIONS

FRIDAY, JUNE 14, 2024

GLOBAL SYSTEMIC IMPORTANT BANKS (GSIBS) 1Q24 RESULTS SURPRISED TO THE UPSIDE

GSIBs posted strong results in the first quarter of 2024, with only 5 percent of banks missing consensus earnings per share (EPS) estimates (Chart 2.1). On aggregate, growth in returns was driven by strong non-interest income and lower operating costs, while tailwinds from interest income and margin expansion seemed to be fading.

EQUITY PRICES HAVE RALLIED YEAR-TO-DATE

GSIB equity prices have rallied significantly year-to-date, especially in North America, Japan, and Europe, although the recent rally cooled-off since April (Chart 1.1). The AT1 market has also fully recovered from the March 2023 turmoil in both pricing and issuance. Price-to-book ratios have increased across regions but continue within historical ranges, except for Japan (Chart 1.2 and 1.3).

PROFITABILITY IMPROVED BOLSTERED BY STRONGER NON-INTEREST INCOME AND EXPENSE MANAGEMENT

Bank profitability improved driven by several factors. Noninterest income from fees, including wealth management, commissions from insurance activities, and revenue from investment banking and trading, rebounded strongly while cost discipline contributed to lower noninterest expenses across most GSIBs. In addition, improved macroeconomic forecasts and lower expectations for credit losses contributed to lower provision expenses in the US and Europe, while net interest income benefited from modest net interest margin (NIM) expansion in Europe and Japan (Chart 2.2 to 2.6). Aggregate analyst consensus forecasts projected NIMs to compress further in the United States in the second quarter as funding costs remain higher for longer (Chart 2.8).

LOAN GROWTH DECELERATED AS DEMAND CONTRACTED ACROSS LOAN MARKETS

Loan growth slowed down for most GSIBs at a pace that remained different across areas (Chart 4.3). In North America, loan growth was muted as demand eased, with a few banks reporting declining volumes compared to the previous quarter. In Europe, loan growth turned negative for most G-SIBs, as higher rates and tighter lending standards weighed on stagnating loan demand, especially in the corporate sector. In Japan, customer loans declined as higher interest rates dampened demand. In contrast, loan growth remained strong in China supported by strong stimulus provided by the government to mitigate the crisis in the real estate sector. Aggregate analyst consensus estimated forecasted loan growth to remain muted in 2024 across GSIBs except in China.

CREDIT RISK APPEARS TO REMAIN CONTAINED

Asset quality remained overall sound for G-SIBs, in spite of higher cost of debt for households and firms and persistent vulnerabilities in the commercial real estate (CRE) sector. Some GSIBs in the US and Europe continued to have high CRE exposure relative to Tier 1 capital this quarter (Chart 4.4). The non-performing loan (NPL) ratio rose marginally for European and North American G-SIBs, by about 13bps year-over-year to reach respectively 2.4 percent and 0.5 percent. In China, where signs of deteriorating asset quality had appeared in 2023, the NPL ratio marginally retraced in the quarter to 1.32 percent on average. Most GSIBs maintained an adequate NPL coverage ratio above 100%, except for those in Europe and Japan (Chart 4.1). The cost of credit, measured by annualized loan loss provision expenses to average loans, increased in China and marginally ticked up in aggregate, increasing to 0.44 percent from 0.41 percent at year-end 2023 (Chart 4.2).

BANKS' FUNDING CONTINUED TO MIGRATE TO TERM DEPOSITS AND WEALTH MANAGEMENT ASSETS

Deposit balances increased across most GSIBs in China, Europe, and North America, and the deposit mix continued to shift towards more expensive funding, as term deposits increased, and noninterest bearing deposits decreased over the past year. Aggregate deposits totaled $42 trillion in the first quarter and remained 30 percent above pre-pandemic levels. However, during the quarter, deposit balances slightly decreased for most European and Japanese GSIBs due to sluggish growth, deposit migration to wealth management assets and foreign exchange adjustments (Chart 2.7). Analyst consensus estimates forecast deposit growth to remain modest within the 1 percent range for most GSIBs next quarter.

CAPITAL AND LIQUIDITY RATIOS REMAINED COMFORTABLE

On average, the CET1 capital ratio was 13.1 percent, unchanged from year-end 2023. Individual CET1 ratios remained above minimum regulatory requirements (Chart 3.1 to 3.4) but decreased marginally for a few G-SIBs in North America and Europe, reflecting pay-out ratios higher than 100 percent of 2023 profits. In Japan, G-SIBs had less CET1 capital in the quarter compared to year-end 2023. CET1 ratios, however, moved higher, reflecting declining RWAs driven by regulatory adjustments associated with the implementation of the final elements of Basel III. Liquidity buffers remain ample, with liquidity coverage ratios (LCRs) remaining well above regulatory requirements (Table 1).

This Monitor was prepared by Francesco de Rossi, Gonzalo Fernandez Dionis, Yiran Li, and Silvia L. Ramirez.

GSIBS' Share price performance and valuations

(as of 6/7/24)

GSIB equity prices have rallied in 2024

Chart 1.1. Stock Prices (1/1/2019 = 100)

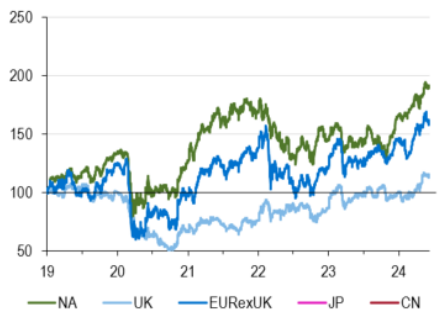


Chart 1.2. Price to Book Ratio

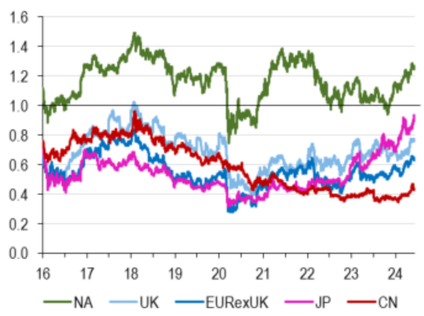


Chart 1.3. Price to Book vs ROE

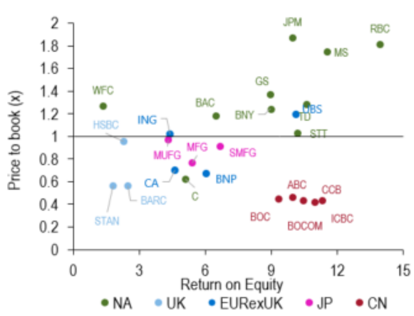


Table 1. Selected Financial Data

Ticker	Bank Name	GSIB Score Dec-2022 Data	Market Cap (USD Bn)	Price to Book	% Price Change (YTD)	CDS	2yr Default Prob (%)	Implied Cost of Debt (%)	Implied Cost of Equity (%)	Dividend Yield (%)	CET1 Ratio (%)	Liquidity Coverage Ratio (%)	Net Income (USD Bn)	Total Asset (USD Bn)	S&P Rating
BAC	Bank of America	347	306	1.2	16.0	53	0.2	5.7	10.4	2.5	11.80	113	6.7	3,153	A-
BNY	Bank of New York Mellon	150	43	1.2	11.5	31	0.2	4.5	9.6	2.9	10.80	117	1.0	405	A
C	Citigroup	391	114	0.6	16.2	54	0.2	4.4	10.3	3.5	13.45	117	3.4	2,368	BBB+
GS	Goldman Sachs	241	149	1.4	15.4	57	0.2	4.9	10.8	2.5	14.70	127	4.1	1,577	BBB+
JPM	JPMorgan Chase	454	553	1.9	13.2	44	0.1	4.7	9.5	2.4	15.00	112	13.4	3,898	A-
MS	Morgan Stanley	208	154	1.7	1.8	53	0.2	4.5	10.1	3.6	15.00	125	3.4	1,169	A-
STT	State Street	144	21	1.0	-8.1		0.6	4.7	10.8	3.9	11.10	107	0.5	284	A
WFC	Wells Fargo	170	200	1.3	16.3	53	0.2	5.3	9.4	2.4	11.19	126	4.6	1,909	BBB+
TD	Toronto Dominion	153	95	1.3	-13.2	39	0.2	4.1	10.9	5.5	13.40	126	2.1	1,433	AA-
RBC	Royal Bank of Canada	178	148	1.8	7.0	34	0.1	4.2	10.7	4.0	12.80	128	2.6	1,488	AA-
North America		243.6	1,783	1.3	7.6	46	0.2	4.7	10.3	3.3	12.92	120	42	17686	
BARC	Barclays	259	39	0.6	33.4	65	0.2	5.1	14.3	3.9	13.50	163	2.3	1,943	BBB+
HSBC	HSBC Group	368	160	1.0	8.5	54	0.1	4.8	12.8	7.2	15.20	136	10.6	3,021	A-
STAN	Standard Chartered	140	24	0.6	9.8	60	0.2	4.0	12.8	2.9	13.60	146	1.4	826	BBB+
United Kingdom		256	223	0.7	17.2	60	0.2	4.6	13.3	4.7	14.1	148	14	5789	
BNP	BNP Paribas	336	73	0.7	-4.1	46	0.2	2.6	11.8	7.7	13.07	134	3.4	2,858	A+
CA	Credit Agricole	229	44	0.7	4.5	43	0.2	2.8	10.1	7.8	11.80	146	2.1	2,295	A+
DB	Deutsche Bank	248	31	0.5	17.6	71	0.1	3.1	13.7	3.1	13.40	136	1.5	1,437	A
	GROUP BPCE	132						3.2	10.4	0.0	15.60	152		1,626	
ING	ING Group	148	55	1.0	15.0	45	0.1	2.6	11.0	7.1	14.80	146	1.7	1,081	A-
SAN	Banco Santander	190	75	0.8	16.4	44	0.2	2.6	14.3	4.0	12.30	160	3.1	1,922	A+
SG	Societe Generale	204	20	0.3	-4.4	54	0.6	2.5	11.7	3.9	13.20	159	0.7	1,692	A
UBS	UBS Group	195	105	1.2	5.6	57	0.5	1.2	11.1	2.4	14.80	220	1.8	1,645	A-
Europe		210	403	0.7	7.2	51	0.3	2.6	11.8	4.5	13.62	157	14	14,555	
MUFG	Mitsubishi UFJ Financial Group	252	126	1.0	31.9		0.2	0.7	9.7	3.1	13.53	162	4.1	2,987	A-
MFG	Mizuho Financial Group	166	50	0.8	27.0	37	0.2	0.6	9.7	3.8	12.73	130	1.8	1,922	A-
SMFG	Sumitomo Mitsui Financial Group	178	84	0.9	45.3	42	0.2	0.6	9.9	2.2	12.91	131	1.8	2,020	A-
Japan		199	259	0.9	34.8	39	0.2	0.6	9.8	3.0	13.06	141	8	6,929	
ABC	Agricultural Bank of China	235	198	0.4	6.6	74	0.1	2.0	7.9	7.8	11.37	131	9.8	5,303	A
BOC	Bank of China	288	169	0.5	25.2	70	0.1	1.7	7.8	6.8	11.63	135	7.8	4,353	A
CCB	China Construction Bank	249	179	0.4	18.5	68	0.2	1.9	7.9	7.8	14.11	134	12.1	5,186	A
ICBC	Industrial & Comm Bank of China	306	250	0.4	13.1	68	0.1	1.9	6.5	7.6	13.78	127	12.2	6,095	A
BOCOM	Bank of Communications	134	64	0.5	19.9		0.1	2.1	8.9	6.9	10.23	129	3.5	1,895	A-
China		242	861	0.4	16.7	69.9	0.1	1.9	7.8	7.4	12.2	131.2	45	22,831	
Total		230	3,529	0.8	16.7	53	0.2	2.9	10.6	4.6	13.19	139	123	67,791	
Red Highlights				*< 1.0*	*< 0.0*	*Highest*	*Highest*	*Highest*	*Highest*	*Lowest*	*Lowest*	*Lowest*	*Lowest*		
Green Highlights				*Highest*	*> 0.0*	*Lowest*	*Lowest*	*Lowest*	*Lowest*	*Highest*	*Highest*	*Highest*	*Highest*		

Note: Regional averages are asset-weighted average of each bank in the region

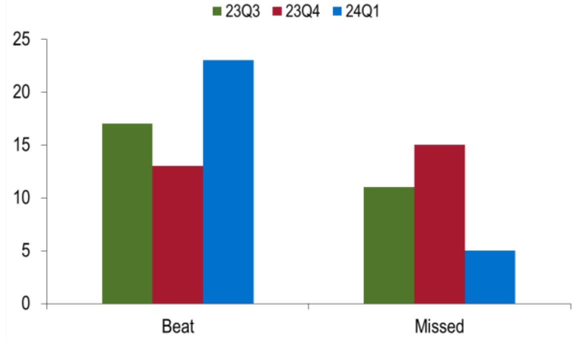
Note: As of 1Q24, unless otherwise noted. Market pricing is as of June 7, 2024. Regional averages are asset-weighted. Throughout this note, "EUR" includes all European GSIBs. "NA" includes US and Canadian GSIBs, "JP" = Japanese and "CN" = Chinese GSIBs. "TOT" is the total across all G-SIBs. The GSIB list includes Bank of Communications and excludes Unicredit according to the Financial Stability Board publication (2023 List of Global Systemically Important Banks (G-SIBs) - Financial Stability Board (fsb.org)). Source: Bloomberg and IMF Staff calculations.

Earnings Overview

GSIB profitability continued to surprise to the upside

Chart 2.1. Adjusted Earnings per Share vs. Consensus Estimates

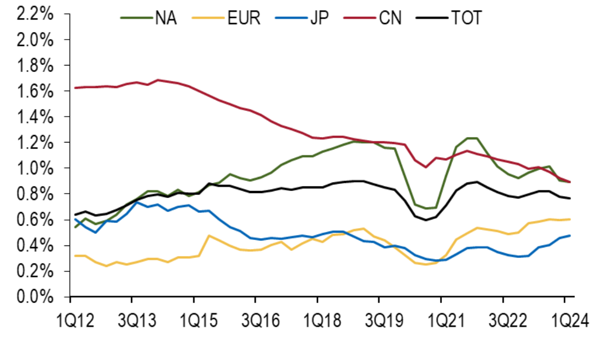
(Number of institutions)



While profitability improved for European and Japanese GSIBs, it declined in agregate

Chart 2.2.Operating ROA

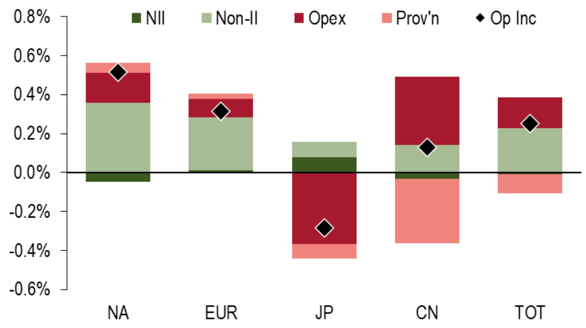
(Percentage points, ex conduct charges)



Strong noninteret income and lower costs contributed to strong earnings performance

Chart 2.3. Decomposition of Quarterly Change in Operating ROA, 2024:Q1 vs. 2023:Q4

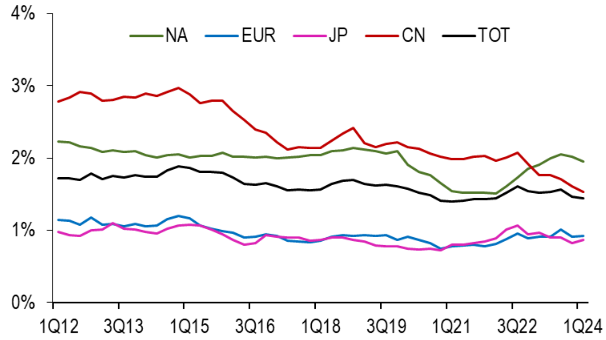
(Percentage points)



Banks in Europe and Japan benefited from modest net interest margin expansion

Chart 2.4. Annualized Net Interest Margin

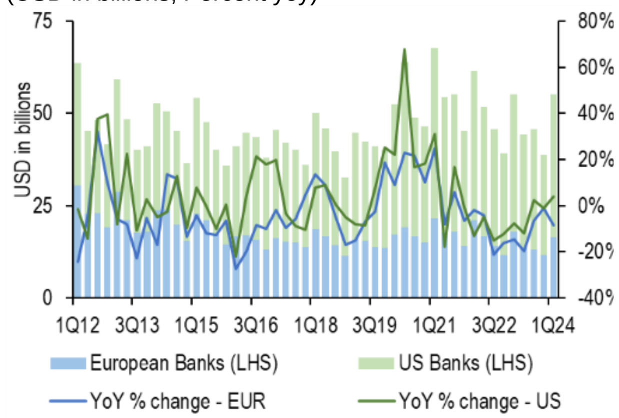
(Percent)



Investment banking revenue and

Chart 2.5. Investment Banking and Trading Revenues

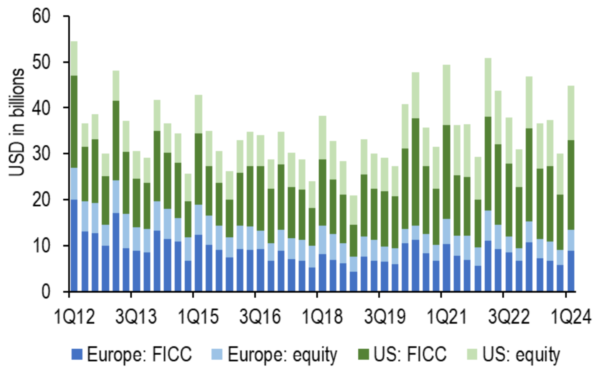
(USD in billions; Percent yoy)



... trading revenue rebounded strongly this quarter

Chart 2.6. Trading Revenues, by FICC and Equities

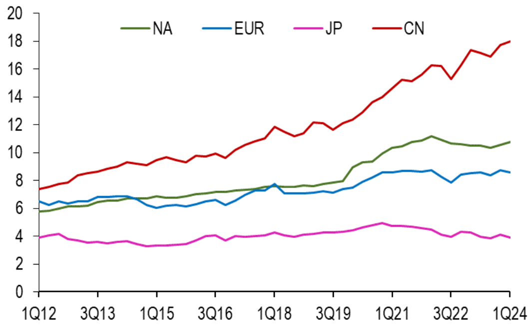
(USD in billions)



Funding Outlook

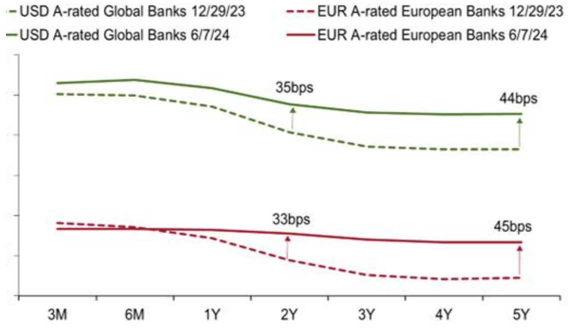
Most GSIBs posted sluggish deposit growth in the quarter

Chart 2.7. Deposit Balances
(In trillions of U.S. dollars)



While medium term funding costs increased

Chart 2.8. Bank Yield Curves for A-rated Debt
(Percent)



Capital

Capital levels remained adequate and capital ratios improved in the quarter

Chart 3.1. CET1 Progression: US
(Percent of risk-weighted assets)

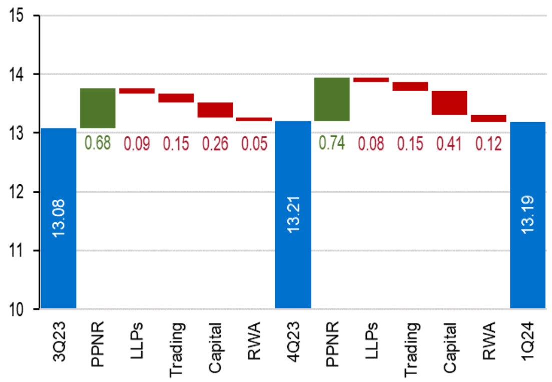


Chart 3.2. CET1 Progression: Europe and UK
(Percent of risk-weighted assets)

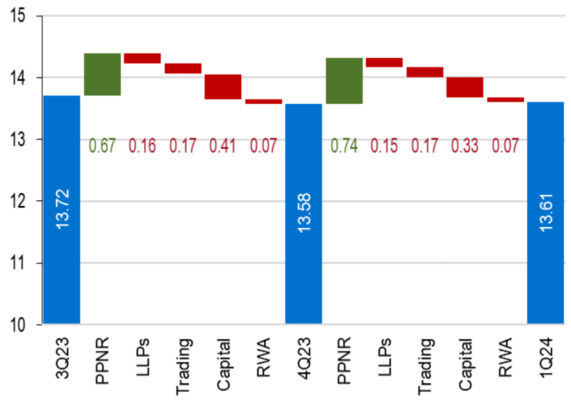


Chart 3.3. CET1 Progression: Japan
(Percent of risk-weighted assets)

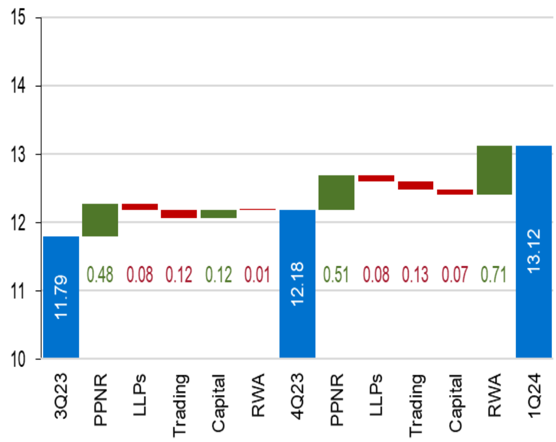
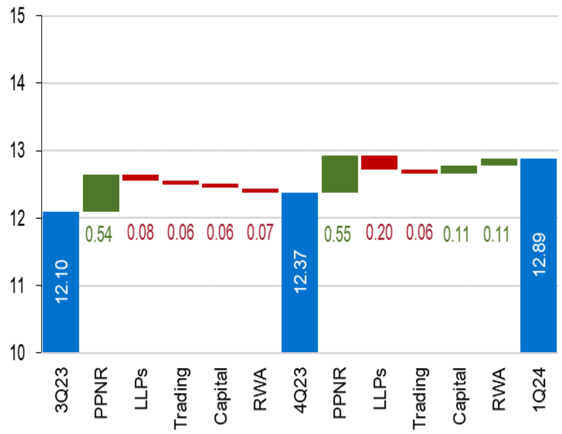


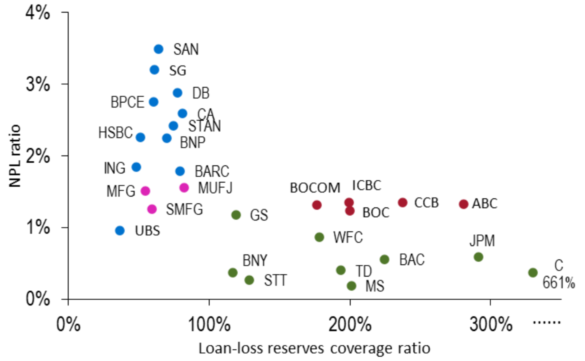
Chart 3.4. CET1 Progression: China
(Percent of risk-weighted assets)



Asset Quality and Loan Growth

GSIBs maintained an adequate coverage ratio relative to nonperforming loans in China and North America

Chart 4.1. Loan-Loss Reserves / NPLs
(Percent)



…and GSIBs in China and Japan increased provision expenses as NPLs edged up this quarter

Chart 4.2. Provision Expense / Average Loans (Annualized)
(Percent)

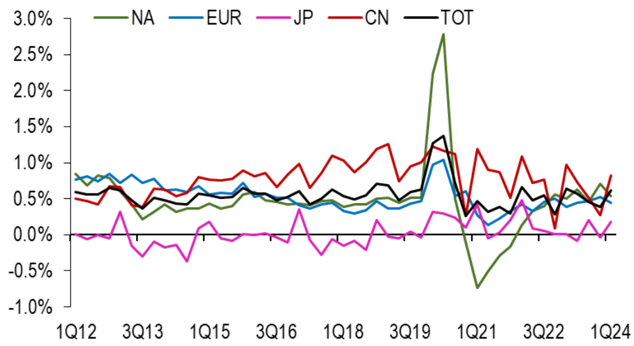


Chart 4.3. Quarterly Loan Balances
(In trillions of U.S. dollars)

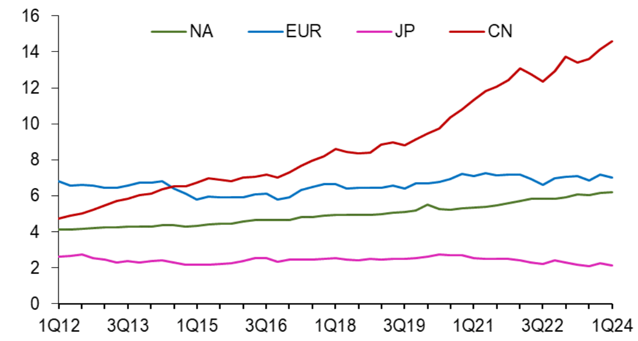
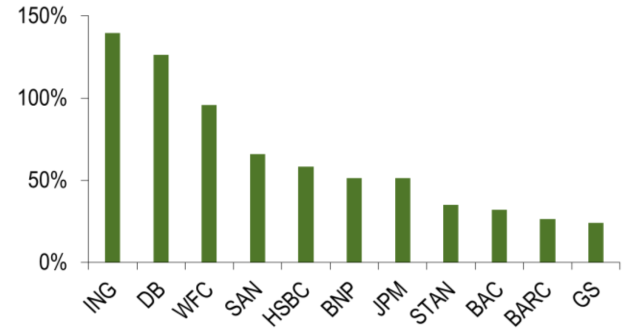


Chart 4.4. CRE Exposure to Tier 1 Capital
(Percent)



Sources: Bank financial statements, SNL, Bloomberg LP, and IMF Staff.

Notes: Chart 1.3 and Chart 4.1 highlight GSIBs in China in red, in Europe in blue, in Japan in pink and in North America in green. Chart 2.1 is based on consensus expectations for 3Q23. Chart 2.2,shows 'underlying' operating performance which excludes tax, non-operating items and misconduct charges based on a fourth quarter trailing average. Chart 2.3, Operating ROA based on adjusted assets to common IFRS standard to normalize for balance sheet size; NII = Net interest income; Non-II = Non-interest income; Opex = Operating expense; Prov'n = Provision for loan losses; Op Inc = Operating income before taxes and extraordinary items. Chart 3.1 to Chart 3.4, CET1= common equity tier 1 ratio; RWA = risk-weighted assets PPNR = pre-provision net revenue; LLPs = loan-loss provisions; Trading = gains on trading and investment; Capital = capital management (dividends, buybacks, other comprehensive income). CET1 and RWA data not available for Bank of China and Bank of Communications.