G-SIB Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

- *Global Systemically Important Banks' (G-SIBs) shares rebounded in 1Q2019 from deep troughs at year-end.*
- *Profits tended to fall short of forecasts and continue to diverge across regions. US banks' out-performance derived mainly from stronger revenues, while Asian banks' revenues deteriorated.*
- *Capital positions and loan-to-deposit ratios stabilized, though liqudity ratios continued to improve.*

Securities prices rebounded this year but remain low by historical standards (page 2). GSIBs' share prices have risen 13% this year, led by continental Europe (+18%), North America (+16%) and China (+10%). Most North American GSIBs continue to trade above 'expected' price-to-book multiples relative to 2020E returns, probably on robust structural prospects. Chinese banks' valuations embed a lower discount than at the time of the previous G-SIB Monitor in October. UK G-SIBs have under-performed (perhaps on Brexit concerns), as have Japanese banks (following a weak financial performance).

Regional divergence in profitability continues (Charts 2.1 to 2.6). 4Q2018 earnings tended to fall short of forecasts (2.1). However, recurring operating ROA continued to improve in North America and Europe in 4Q2018 (+15bps and +10bps year-on-year, respectively); stabilized in China (+5bps YoY) after a prolonged decline; and remained stable but low in Japan (2.2). Robust revenues helped drive the higher profits at North American banks (2.4, 2.6). Costs varied significantly, reflecting business model differences (2.5). Litigation and conduct charges subsided, though anti-money laundering penalties could cause an uptick in future costs (2.3).

Revenues continued to diverge (3.1 to 3.6). US banks' revenues continued to impove on the back of better non-interest income generation. This is because they have taken a greater share of markets-related business and have seen increased revenues in their consumer finance businesses (3.5 and 3.6). Chinese and Japanese banks' revenues, however, deteriorated in recent years mainly due to narrowing net interest margins, though Japanese banks' rebounded modestly in 4Q2018 (3.1 to 3.4).

Markets-related revenues trends remain weak, but US banks continue to take a greater share of this business. Overall markets revenues continued to decline. US banks' revenues, however, stabilized in 4Q18 largely on the basis of gains in the share of this business at the expense of European peers (4.1 to 4.3). 1Q2019 performance is expected to be weak, and some players have warned of continued volume declines in 2019. However, while market revenues are lower, banks—at the same time—generally reduced their exposure to market risk (4.4 to 4.6).

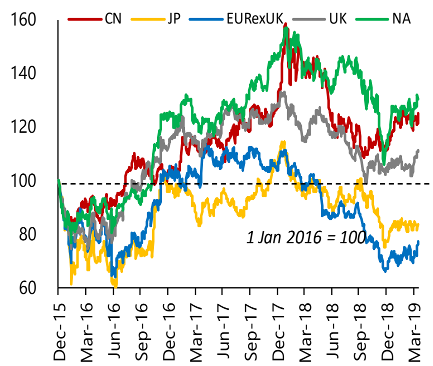
Asset quality continued to improve across all regions (5.1 to 5.6). Banks' gross NPL ratios fell across all regions, particularly in Europe (5.1 and 5.2). Loan-loss reserves and net NPL positions also improved in the US and Europe (5.2 and 5.3). Chinese banks' net NPL positions fell, driven by an increase in provisions (5.4 and 5.5).

Asset growth decelerated everywhere, and capital ratios stabilized (6.1 to 6.6). Growth in risk-weighted assets evaporated across all regions. (6.1 and 6.2) With generally stable profitability and shareholder payouts, capital ratios leveled off in most regions. US banks' sharply increased shareholder payouts in recent years and so average Tier 1 ratios fell 11 basis points YoY, despite improved earnings. European banks' Tier 1 ratios fell 53 bps, driven mainly by anemic profitability. Japanese banks, however, maintained low payouts and asset growth, translating even thin profitability into improving capital. Declining growth and low payouts also contributed to a needed improvement to Chinese G-SIBs' capital positions.

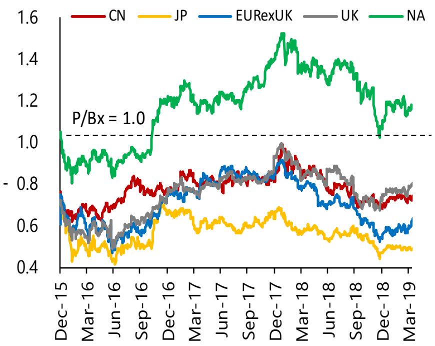
This monitor is produced by John Caparusso (jcaparusso@imf.org) and Rohit Goel (rgoel@imf.org) (both MCMGA). It covers the GSIBs' operating performance, asset quality, capital and liquidity positions, and the price performance of their securities.

1. Share Price Performance and Valuations

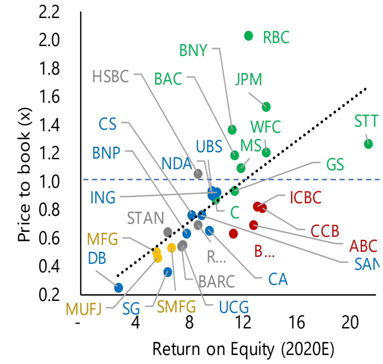
Price Trajectory (1/1/2016 = 100)



Valution Trajectory (Price to book)



Price to Book vs 2020 ROE



Ticker	Bank Name	Market Cap (USD Bn)	Price to Book	% Price Change (1D)	% Price Change (1M)	% Price Change (3M)	% Price Change (YTD)	CDS	2yr Default Prob	Implied Vol (90 D)	Implied Cost of Equity	Dividend Yield
JPM	JP Morgan	357	1.5	(1.1)	3.2	7	13	44	0.18	18	10.5	2.9
BAC	Bank of America	288	1.2	(1.1)	1.8	5	21	45	0.17	24	10.4	2.0
WFC	Wells Fargo	211	1.2	0.6	(7.7)	(4)	1	46	0.16	20	11.4	3.8
C	Citigroup	158	0.9	(0.1)	3.4	8	29	55	0.53	22	11.3	2.7
GS	Goldman Sachs	76	0.9	(3.8)	0.8	1	20	77	0.68	23	12.2	1.7
MS	Morgan Stanley	78	1.1	(1.3)	6.3	4	16	62	0.53	25	11.9	2.6
BNY	Bank of New York Mellon	50	1.4	(0.4)	(1.0)	4	12	42	0.18	21	9.3	2.1
STT	State Street	26	1.3	(1.3)	0.0	(0)	11	51	0.22	25	17.9	2.7
RBC	Royal Bank of Canada	113	2.0	-	1.5	7	12	53	0.32	11	10.2	3.9
North America		1,357	1.3	(0.9)	1.0	4	16	51	0.30	21	11.0	2.8
HSBC	HSBC Group	175	1.1	1.1	6.6	2	2	54	0.42	16	8.8	5.9
BARC	Barclays	38	0.5	0.4	1.5	4	12	96	1.03	25	11.0	3.9
RBS	Royal Bank of Scotland	41	0.7	(0.2)	0.4	15	25	95	0.68	24	11.1	1.3
STAN	Standard Chartered	29	0.6	0.1	10.1	10	10	67	0.62	23	8.5	2.4
United Kingdom		284	0.8	0.6	4.7	6	9	73	0.64	20	9.7	4.2
BNP	BNP Paribas	67	0.6	1.5	7.4	10	20	37	0.93	22	11.0	6.3
DB	Deutsche Bank	18	0.3	1.8	(0.4)	(5)	12	156	1.96	37		1.4
CA	Credit Agricole	40	0.7	1.4	12.0	20	31	32	1.39	23	13.8	5.6
SG	Societe Generale	26	0.4	1.9	4.5	(6)	3	38	1.72	25	12.1	7.7
SAN	Banco Santander	83	0.8	(0.2)	3.8	6	15	48	0.85	24	11.1	5.1
UBS	UBS Group	50	0.9	1.3	7.6	(1)	8	57	0.39	19	10.9	5.3
UCG	Unicredit Group	32	0.6	2.0	8.4	20	29	122	1.39	32	13.8	2.1
ING	ING Group	53	0.9	1.4	9.3	18	29	66	0.68	21	11.3	5.6
CS	Credit Suisse	34	0.8	1.9	10.1	10	23	65	0.87	22	10.7	2.0
NDA	Nordea Bank	34	0.9	0.1	(6.7)	(3)	5	32	0.72	22	9.8	9.2
Continental Europe		439	0.6	1.3	6.1	7	18	63	1.15	25	10.4	5.1
MUFJ	Mitsubishi UFJ Financial Group	69	0.5	(0.6)	(1.5)	(0)	5	49	1.45		10.3	3.9
MFG	Mizuho Financial Group	39	0.5	-	0.6	(1)	2	52	1.59		9.7	4.3
SMFG	Sumitomo Mitsui Financial Group	50	0.5	(0.2)	0.4	4	9	51	1.27		11.6	4.3
Japan		158	0.5	(0.5)	(0.4)	1	5	50	1.44		10.5	4.1
ICBC	Industrial & Comm Bank of China	308	0.8	3.1	1.0	6	8	52	0.40	20	14.1	4.9
CCB	China Construction Bank	231	0.8	3.9	2.6	9	11		0.49	18	14.7	5.0
ABC	Agricultural Bank of China	199	0.7	1.7	(1.6)	3	7		0.55	17	14.6	5.5
BOC	Bank of China	166	0.6	2.7	3.5	11	13	53	0.74	19	13.2	5.6
China		905	0.7	2.9	1.3	7	10	53	0.53	19	14.1	5.2
Total		3,142	0.8	0.9	2.7	5.5	12.5	57	0.8	21.3	11.5	4.4
Red Highlights?			*< 1.0*	*< 0.0*	*< 0.0*	*< 0.0*	*< 0.0*	*Highest*	*Highest*	*Highest*	*Highest*	*Lowest*
Green Highlights?			*Highest*	*> 0.0*	*> 0.0*	*> 0.0*	*> 0.0*	*Lowest*	*Lowest*	*Lowest*	*Lowest*	*Highest*

Note: Regional averages are asset-weighted average of each bank in the region; Updated as of 16th April, 8.45 AM

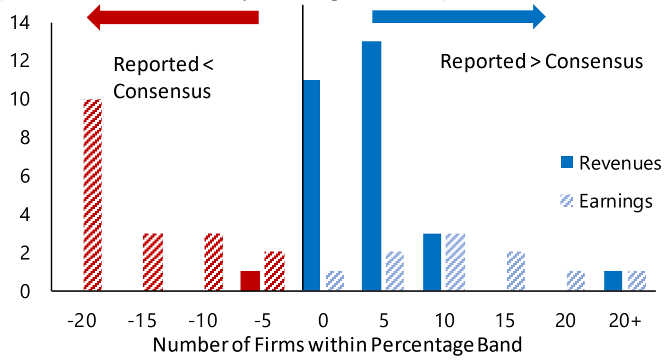
Note: Throughout this note, "EUR" includes all European banks. "NA" includes US and Canadian banks, "JP" = Japanese and "CN" = Chinese banks. "TOT" is the total across all G-SIBs. Source: Bloomberg and IMF Staff Analysis.

2. Net Income Performance

4Q2018 net income disappointed expectations, despite solid revenue performance.

Chart 2.1. Revenues vs. consensus estimates

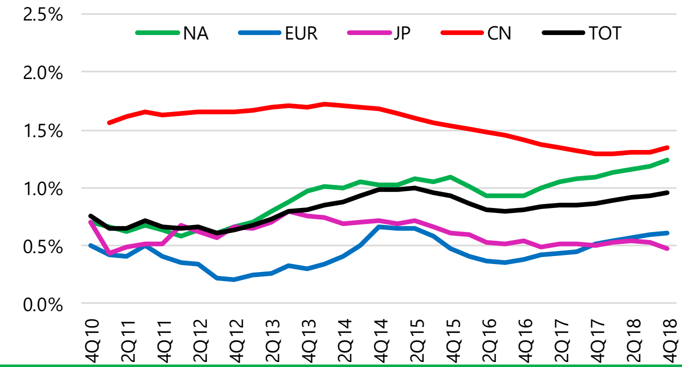
(Number of GSIBs within percentage intervals)



Operating ROAs continued to rise in North America and Europe, but fell in Japan.

Chart 2.2. Operating ROA, Pretax, GSIB Regional Average

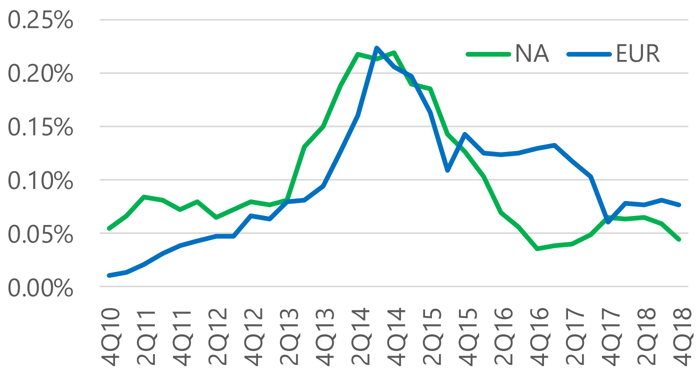
(Percent of average assets, 4 quarters trailing, ex conduct charges)



Conduct charges stabilized, though AML enforcement is an emerging risk.

Chart 2.3. Litigation and Penalty Charges

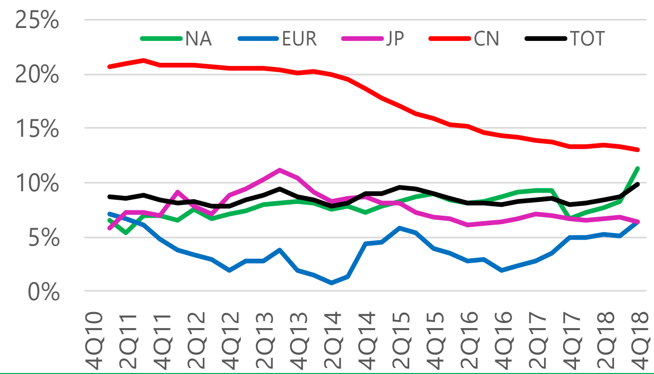
(Percent of average assets)



ROE was strong in North America in 4Q2018, recovered in Europe but is trending down in Asia.

Chart 2.4. Reported ROE, Regional Average

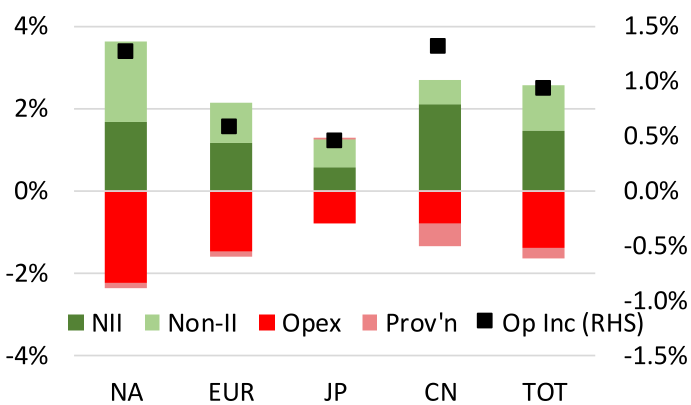
(Percent of average equity)



US GSIBs generated relatively high revenues with ample non-interest income …

Chart 2.5. Decomposition of Operating ROA, by Region, 2018

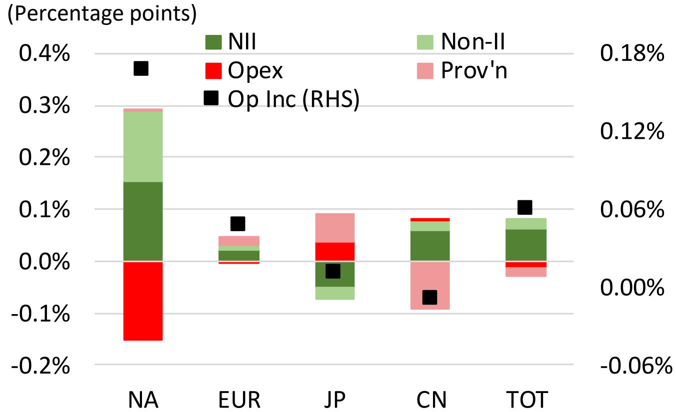
(Percentage points)



… and saw the largest year-on-year rise in operating ROA in 1H18.

Chart 2.6. Change in Operating ROA, 2018 vs. 2017, by Region

(Percentage points)



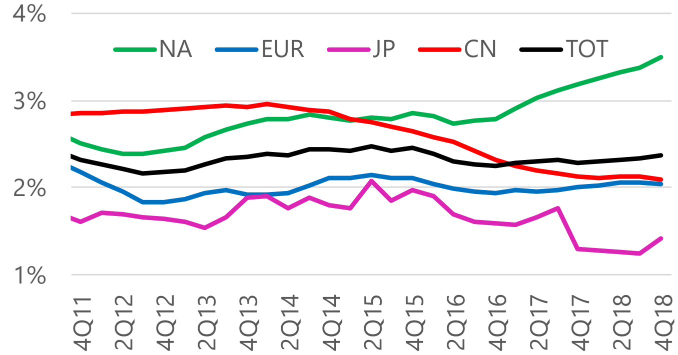
Note: Operating profit = operating revenue less provisions and operating expense. To highlight 'underlying' operating performance, results are shown before tax and exclude the effects of non-operating items and misconduct-related litigation charges and penalties. NII = Net interest income. Non-II = Non-interest income. Opex = Operating expense. Prov'n = Provision for loan losses. Op Inc = Operating income before taxes and extraordinary items.

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

3. Revenue Performance

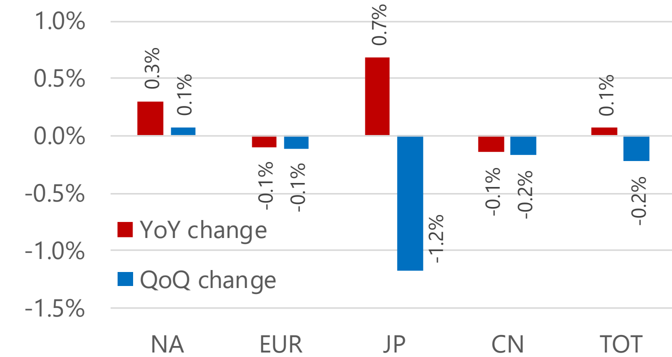
North American GSIBs' revenues improved sharply, while they deteriorated in Asia.

Chart 3.1. Revenues/Assets, 1Q2011 – 4Q2018, 4Q Trailing Average, by Region (Percent)



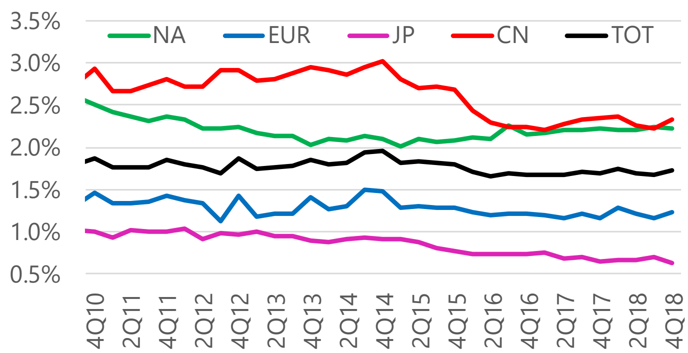
Over the last quarter, Japanese GSIBs suffered a significant hit to trading income.

Chart 3.2. Change in Revenues/Assets, 4Q2018
(Percentage points)



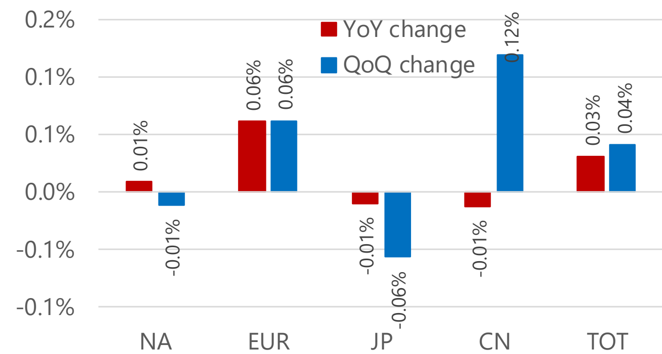
Net interest margins stabilized, though at very different levels.

Chart 3.3. Net Interest Margin, 1Q2010 – 4Q2018, by Region
(Percent)



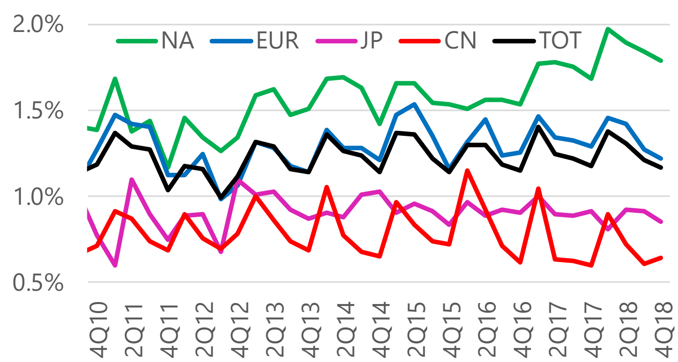
After a persistent decline, Chinese banks' margins rebounded.

Chart 3.4. Change in Net Interest Margin, 4Q2018
(Percentage points)



Non-interest revenues were generally weaker.

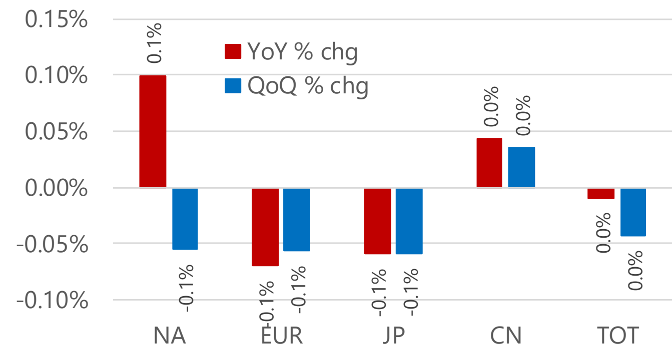
Chart 3.5. Non-Interest Income to Average Assets, 1Q2010 – 4Q2018, by Region (Percent)



Note: FICC = Fixed income, currencies and commodities.
Sources: Bloomberg, SNL, IMF Staff analysis.

4Q2018 was a difficult environment for non-interest revenue across all regions, except in China.

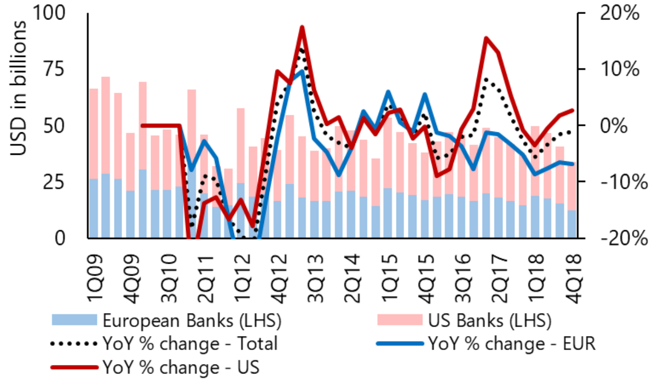
Chart 3.6. Change in Non-Interest Income to Average Assets, 4Q2018
(Percentage points)



4. Market Revenues and Market Risk

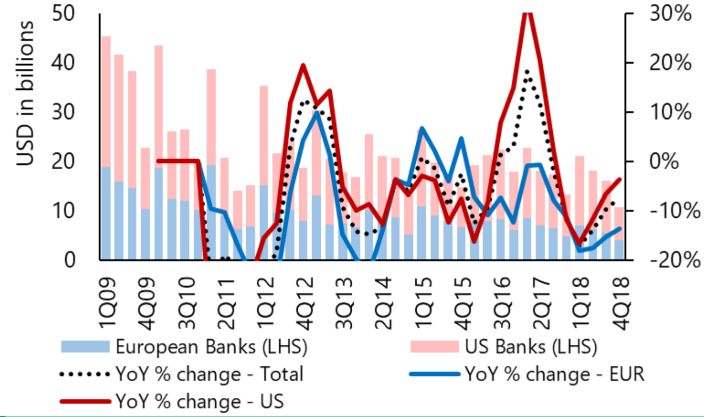
US banks' markets revenues started to stabilize, but continued to shrink at European banks.

Chart 4.1. Investment Banking and Trading Revenues
(USD in Millions, Percent)



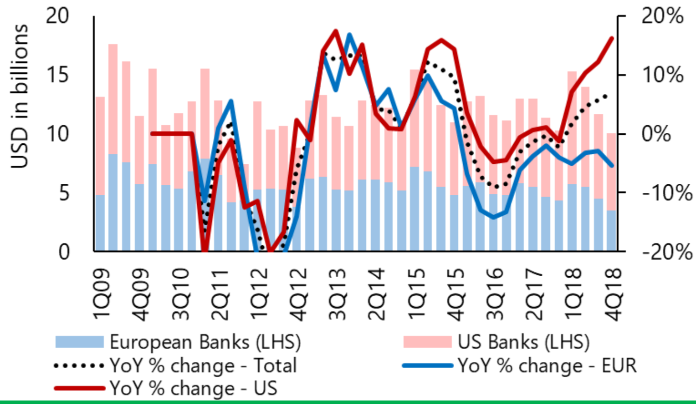
Fixed income revenues remained subdued across GSIBs.

Chart 4.2. Trading Revenues – FICC
(USD in Millions, Percent)



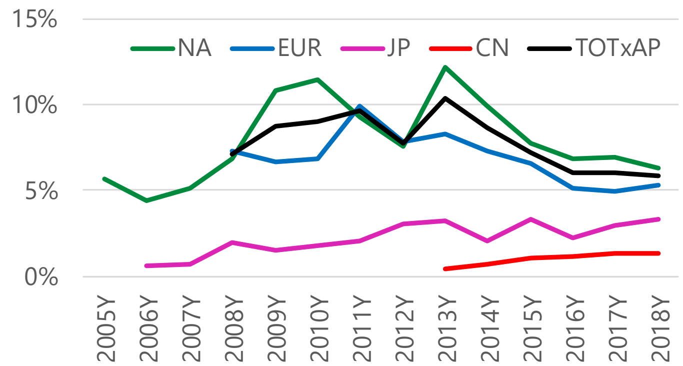
Trading revenues linked to equities performed well, particularly among US firms.

Chart 4.3. Trading Revenues – Equities
(USD in Millions, Percent)



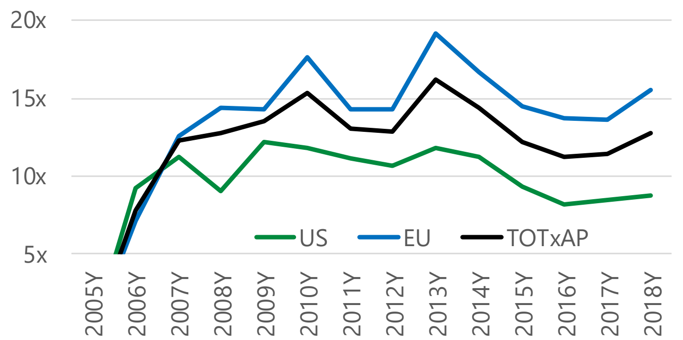
Longer-term market revenue trends are consistent with a declining allocation of capital to market risk …

Chart 4.4. Market RWA / Total RWA
(Percent)



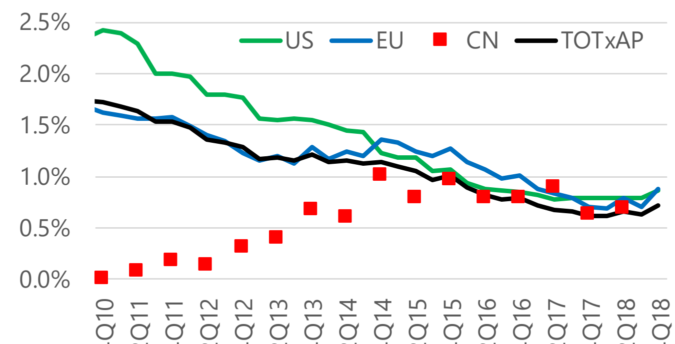
… both on- and off-balance sheet …

Chart 4.5. Off-balance sheet notional derivatives exposures relative to total reported assets (Times)



… while banks' holdings of illiquid and hard-to-value positions generally stabilized.

Chart 4.6. Level 3 Assets / Total Assets
(Percent)

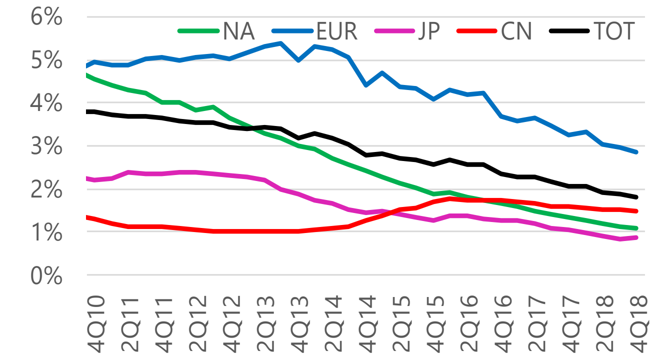


Note: FICC = Fixed income, currencies and commodities. RWA = Risk-weighted assets
Sources: Various brokerage analysts, IMF Staff analysis.

5. Asset Quality and Credit Costs

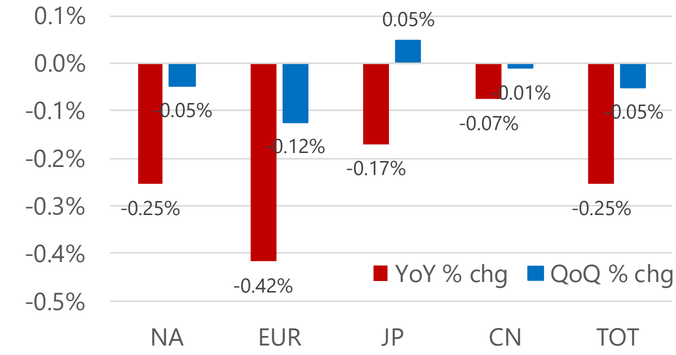
GSIBs' gross NPL ratios continued to decline overall …

Chart 5.1. Gross NPL Ratio
(Percent)



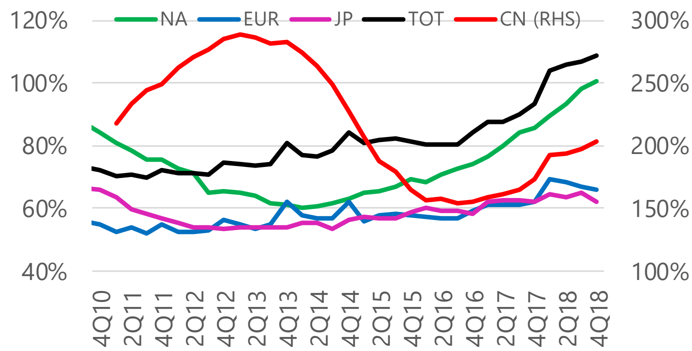
… with European banks leading the decline, facilitated by large disposals.

Chart 5.2. Change in Gross NPL Ratios
(Percentage points)



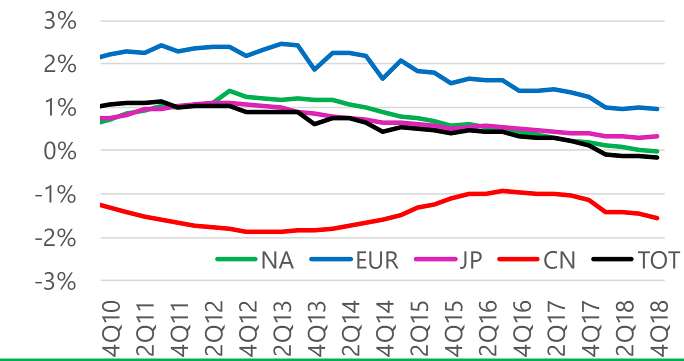
Reserves coverage improved, especially in North America.

Chart 5.3. Loan-Loss Reserves / NPLs
(Percent)



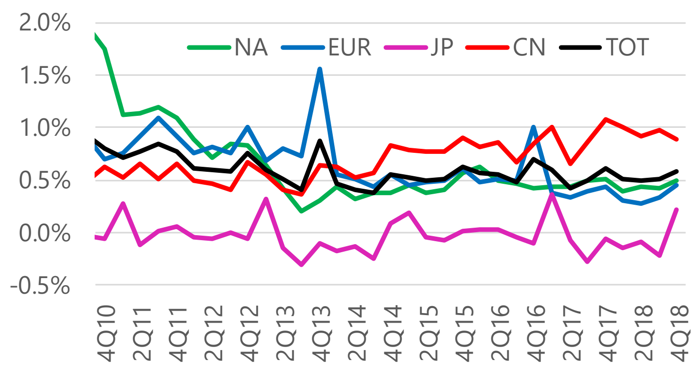
Net NPL ratios improved steadily among European GSIBs.

Chart 5.4. Net NPL Ratio
(NPLs, net of LLRs, as Percent of Loans)



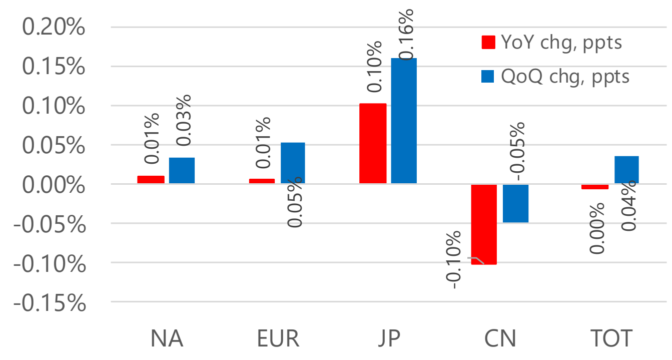
Provision charges remained moderate in North America and Europe …

Chart 5.5. Provision Expense / Loans
(Percent)



… were low but rising in Japan, and were persistently high in China.

Chart 5.6. Change in Provision Expense / Loans
(Percentage Points)

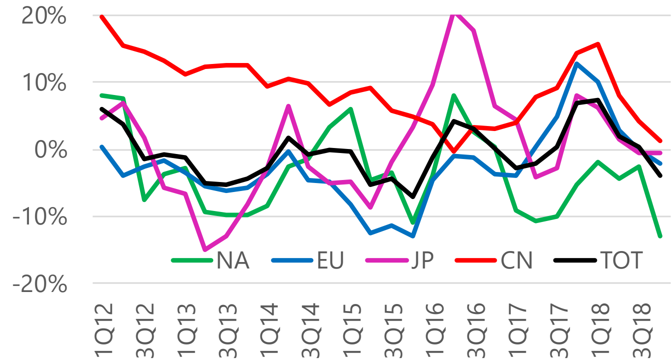


Sources: Bloomberg, SNL, IMF staff analysis.

6. Balance Sheet Growth, Capital and Liquidity

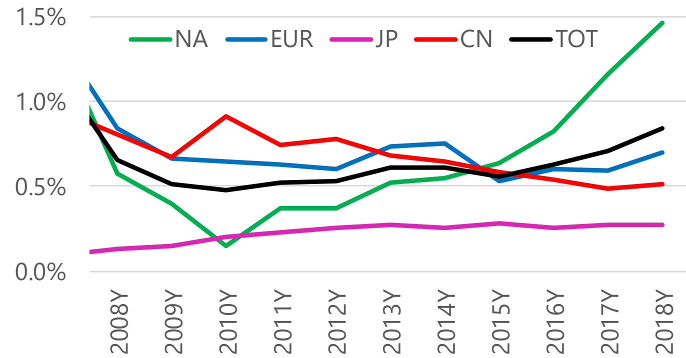
Risk-weighted asset growth is converging at near-zero across all regions.

Chart 6.1. YoY change in Risk-Weighted Assets
(Percent)



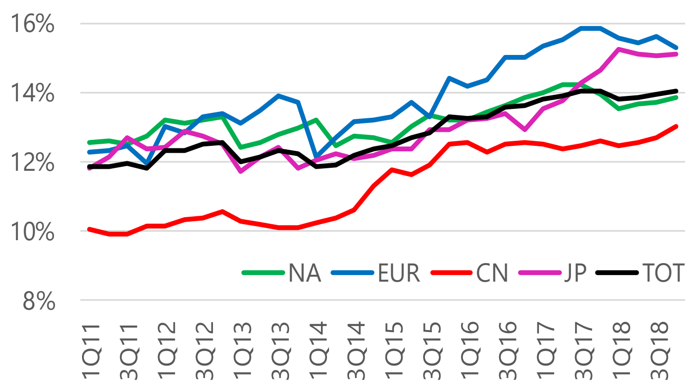
Total payouts declined in most regions, though North American banks were a notable exception.

Chart 6.2. Total Shareholder Payout / Risk-Weighted Assets
(Percent)



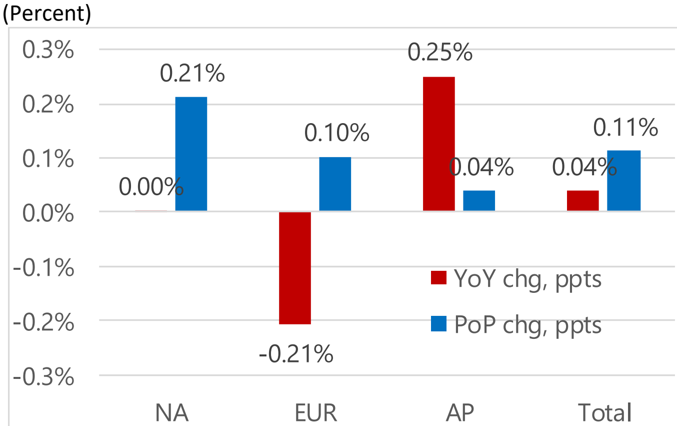
Tier 1 ratios stabilized, following their trend increase over the past decade.

Chart 6.3. Tier 1 Ratio, Average by Region
(Percent)



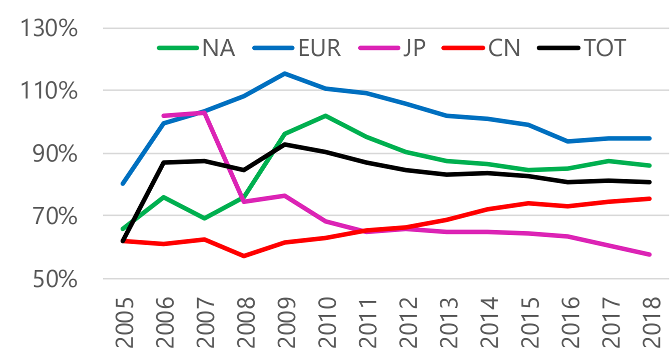
European GSIBs' capital ratios saw a modest decline.

Chart 6.4. Change in Common Equity Tier 1 Ratio, Average by Region
(Percent)



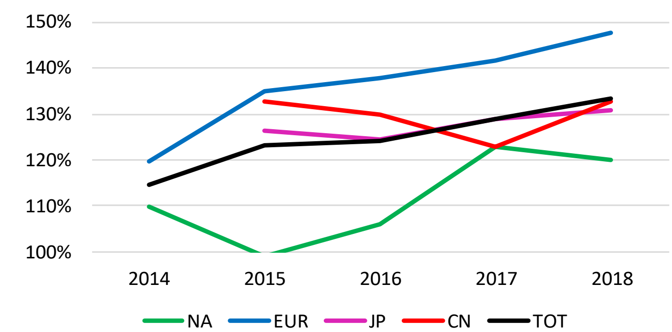
Loan-deposit ratios also stabilized overall.

Chart 6.5. Loan-Deposit Ratio, Average by Region
(Percent)



Liquidity coverage ratios rose, though North American banks showed signs of plateauing.

Chart 6.6. Liquidity Coverage Ratio, Average by Region
(Percent)



Note: Note: Assets are normalized to include off-balance sheet derivatives for all banks. Sharply negative growth of off-balance sheet derivatives assets accounts for essentially all of the decline in US bank assets. Total shareholder payout includes ordinary dividends, special dividends, and share buybacks.
Sources: Bloomberg, SNL, staff analysis.