G-SIB MONITOR

MONETARY AND CAPITAL MARKETS DEPARTMENT

Oct 7, 2021

Highlights:

- *The rally in G-SIB stocks have stalled*
- *Capital ratios held steady at high levels as better revenues offset capital distribution and RWA growth*
- *Europe joined US to close the COVID gap in underlying earnings on cost cutting (expense, provision)*
- *Interest margins worsened amid the sharp flattening in the global yield curve, while trading revenues normalized*
- *The turning of bad debt cycle was reinforced in Q2*

The rally in G-SIB stocks since 2020:Q2 have stalled with mixed performance in Q2 (Page 2). Concerns about slowing economic recovery led to a sharp flattening in the yield curve, while continuing tepid loan growth and a normalization in trading revenues after a few blockbuster quarters raised concerns about future profitability. More NIM sensitive banks in US and Europe fared worse, while G-SIBS in Japan and China closed decidedly lower.

Capital ratios were steady as better revenue dynamics offset capital distributions and continuing RWA growth. (2.1 to 2.6) The unwinding of provisions continued to support US G-SIBs' capital ratios, in contrast to the continuing reserve build in other regions, particularly in China. (2.1 to 2.4) RWA increased in most regions, in line with loan growth, though the pace has slowed outside of China, with particular weakenss in Japan. (2.5) Simple leverage ratios dipped in US and held steady in other regions, with ample buffers above minimum requirements. (2.6)

Europe joined US to close the COVID gap in underlying earnings. More than 60% of G-SIBs with available analysts' earnings forecasts delivered Q1 pre-tax earnings more than 20% above expectations. (3.1) Over 80% of the sample reported provisions below consensus by more than 20%. (3.1) Operating RoE reached new record high since the GFC in US and have returned to pre-COVID level in Europe, with a 4-quarter average at 16.5% and 9.3%, respectively. In Japan and China, the recovery remains on track albeit at a much slower pace. (3.2, 3.3)

The recovey was managed through cutting provisions and costs, while interest income worsened with flatter yield curve. Operating RoA improved in Europe and Japan, supported by cost cutting and smaller reserve build. (3.4) Interest income continues to weigh on profitability; in line with typical seasonality, non-interest income cooled off from a strong Q1. (3.5, 3.6)

Capital market revenues contracted for the first time since 2020:Q2, though overall level remains above pre-COVID levels. Invesment banking revenues remains strong and rising on continuing strength in M&A and primary market activities, but trading revenues have contracted from both FICC and equities. That being said, overall volume and revenues remain above pre-COVID levels, indicating higher profit margins and deal volumes. (4.1, 4.2) Market risks increased further in US and Japan. (4.3) Earnings tail risk, as measured by average Value-at-Risk, has fallen from recent peak, though it remains above the pre-pandemic levels and exhibits large dispersions across individual G-SIBs (4.4).

New NPL formation continued to drop in Q2 in most geographies. US G-SIBs continued to drawn down reserves, while G-SIBs in other regions all cut back on provisions, but reserve coverage remains comfortably above pre-COVID levels. (5.1, 5.2) Estimated new NPL formation fell for the second straight quarter except in China (5.3), with no discernable concerns in net NPL ratios. (5.4).

This monitor is produced by Yingyuan Chen (ychen@imf.org) and Xingmi Zheng (xzheng@imf.org) (both MCMGA).

Share Price Performance and Valuations

Chart 1. Price Trend (1/1/2019 = 100)

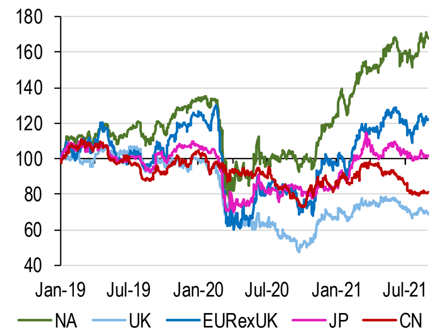


Chart 2. Valution Trajectory (Price / book)

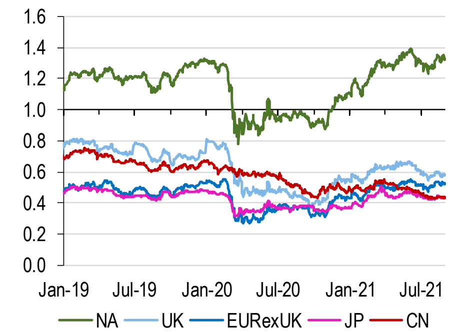
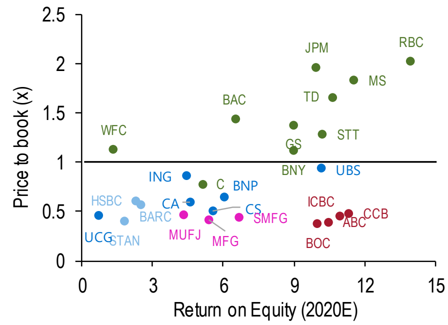


Chart 3. Price to Book vs 2020 ROE



Ticker	Bank Name	Market Cap (USD Bn)	Price to Book	% Price Change (1M)	% Price Change (3M)	% Price Change (YTD)	CDS	2yr Default Prob	Implied Vol (90 D)	Implied Cost of Equity	Dividend Yield
BAC	Bank of America	363	1.4	4.9	4.7	42.1	48	0.4	28.1	10.2	1.9
BNY	Bank of New York Mellon	46	1.1	-1.9	3.3	24.7	36	0.6	28.7	9.4	2.6
C	Citigroup	144	0.8	0.0	1.1	15.4	54	0.4	28.6	10.1	2.9
GS	Goldman Sachs	134	1.4	-7.6	1.6	44.1	59	0.4	28.3	10.9	2.1
JPM	JP Morgan	499	2.0	4.8	7.1	31.5	47	0.3	25.1	9.9	2.4
MS	Morgan Stanley	181	1.8	-5.0	7.6	44.5	56	0.3	29.7	10.8	2.8
STT	State Street	32	1.3	-7.0	2.5	18.7	33	0.6	30.7	10.4	2.6
WFC	Wells Fargo	193	1.1	6.5	4.3	55.8	50	0.4	32.4	10.8	1.7
TD	Toronto Dominion	123	1.7	3.5	-1.9	18.7	27	0.0	12.4		3.7
RBC	Royal Bank of Canada	142	2.0	-2.6	0.1	20.6	51	0.0	14.4	9.5	3.4
North America		1170	1.5	1.7	3.7	33.6	48	0.3	25.9	9.4	2.5
BARC	Barclays	43	0.6	1.7	9.0	28.1	54	0.3	30.3	10.8	1.6
HSBC	HSBC Group	108	0.6	1.1	-6.7	2.6	57	0.4	25.3	8.6	5.3
STAN	Standard Chartered	18	0.4	-4.7	-5.3	-7.2	63	0.5	26.8	9.3	2.0
United Kingdom		126	0.6	-0.1	-6.4	0.5		0.4	25.6	8.8	4.6
BNP	BNP Paribas	80	0.6	1.9	4.6	27.3	36	0.4	31.2	11.0	2.8
CA	Credit Agricole	42	0.6	-2.5	-0.3	14.5	33	0.4	30.3	13.0	6.8
CS	Credit Suisse	26	0.5	-5.1	-4.3	-19.0	59	0.9	32.4	11.1	0.5
DB	Deutsche Bank	26	0.4	2.7	-0.9	21.1	42	0.4	37.2	7.1	0.0
ING	ING Group	57	0.9	6.0	12.4	63.6	42	0.3	29.0	11.0	4.8
SAN	Banco Santander	63	0.6	1.5	-3.1	24.1	35	0.5	36.8	11.2	1.6
SG	Societe Generale	27	0.4	1.5	7.5	58.4	37	0.5	35.4	12.0	2.0
UBS	UBS Group	59	0.9	-3.5	4.2	19.8	44	0.5	26.9	10.1	1.2
UCG	Unicredit Group	30	0.5	5.7	14.6	50.1	61	0.4	37.2	12.6	1.0
Continental Europe		409	0.6	1.0	3.4	29.0	40	0.4	32.9	11.1	3.0
MUFJ	Mitsubishi UFJ Financial Group	77	0.5	3.7	3.9	38.3	29	0.2		8.5	4.3
MFG	Mizuho Financial Group	35	0.4	-2.3	-3.9	17.9	30	0.3		8.4	4.9
SMFG	Sumitomo Mitsui Financial Group	47	0.4	-1.6	-2.0	19.4	33	0.3		9.9	5.3
Japan		160	0.4	0.5	0.1	27.2	31	0.3		8.9	4.7
ABC	Agricultural Bank of China	156	0.4	-0.7	-1.9	-6.7		0.0	22.3	15.4	8.5
BOC	Bank of China	129	0.4	0.0	-1.8	3.0	64	0.0	18.9	14.5	8.8
CCB	China Construction Bank	177	0.5	-4.1	-10.4	-7.6		0.3	22.5	15.4	7.2
ICBC	Industrial & Comm Bank of China	242	0.5	-3.6	-6.6	-15.5	65	0.1	21.1	14.9	7.5
China		704	0.4	-2.9	-5.4	-7.4		0.1	21.3	15.1	7.9
Total		2569	0.6	-0.4	-0.8	14.7		0.3	26.5	11.7	5.0
Red Highlights			*< 1.0*	*< 0.0*	*< 0.0*	*< 0.0*	*Highest*	*Highest*	*Highest*	*Highest*	*Lowest*
Green Highlights			*Highest*	*> 0.0*	*> 0.0*	*> 0.0*	*Lowest*	*Lowest*	*Lowest*	*Lowest*	*Highest*

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

Note: Pricing is as of Aug 31, 2021. Regional averages are asset-weighted. 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.

Common Equity Tier 1 Capital: Progression and Position against Requirements

G-SIBs' CET1 ratios held steady, as better revenues offset capital distribution and continuing RWA growth

Chart 2.1. CET1 Progression: US
(Percent of risk-weighted assets)

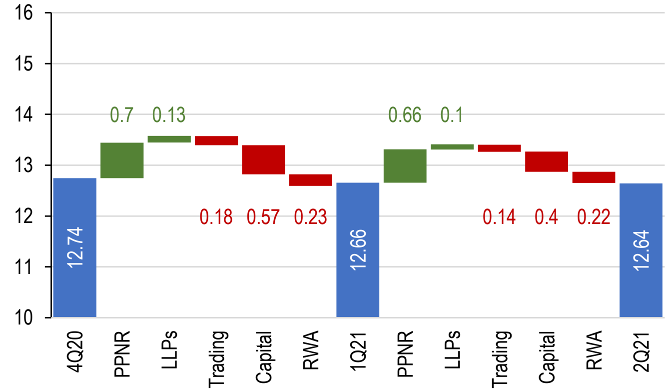


Chart 2.2. CET1 Progression: Europe and UK
(Percent of risk-weighted assets)

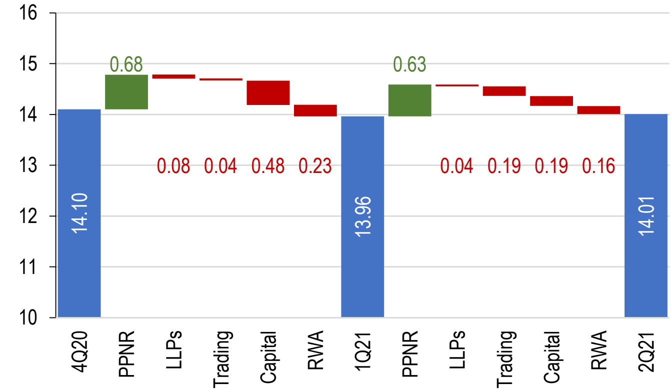


Chart 2.3. CET1 Progression: Japan
(Percent of risk-weighted assets)

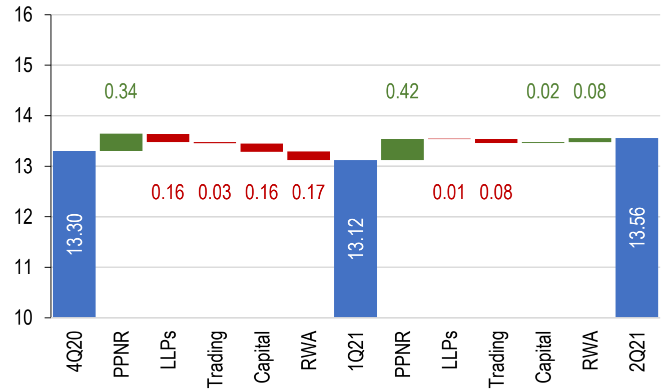
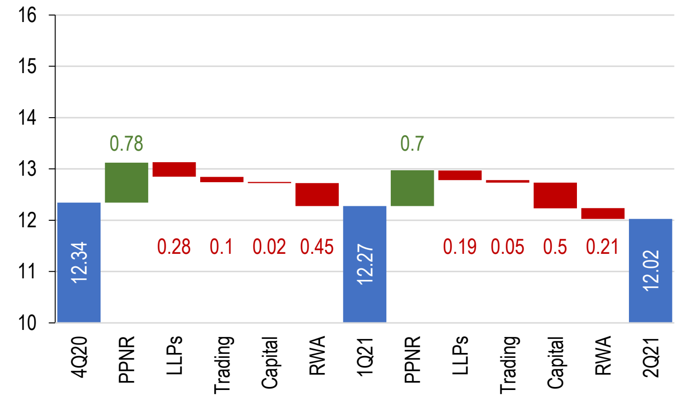
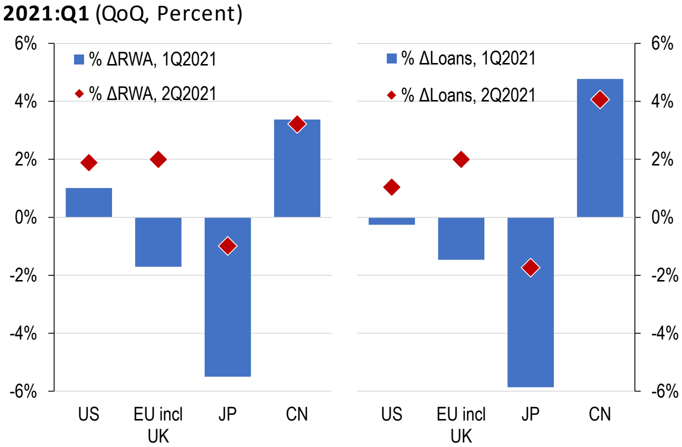


Chart 2.3. CET1 Progression: China
(Percent of risk-weighted assets)



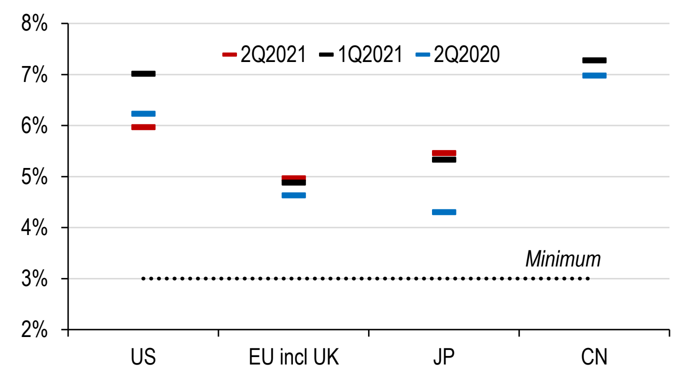
RWA expansion in line with loan growth, which has improved but remains tepid

Chart 2.5. Sequential Growth of Loans and RWAs, 2021:Q2 vs 2021:Q1 (QoQ, Percent)



Leverage ratios dipped in US but remain well above minimum requirement in all regions

Chart 2.6. Average Leverage Ratio, 2021:Q2 to 2021:Q1
(Percent of leverage exposures)

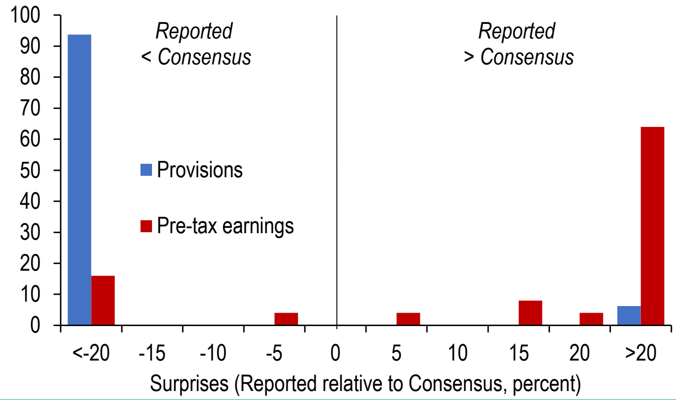


Sources: Bank financial statements, SNL, Bloomberg, Basel Committee, national supervisors, and IMF Staff.
Note: CET1= common equity tier 1 ratio; RWA = risk-weighted assets PPNR = pre-provision net revenue; LLPs = loan-loss provisions; Trading = gains on trading and investment; Capital = capital management (dividends, buybacks, other comprehensive income)

Earnings Overview

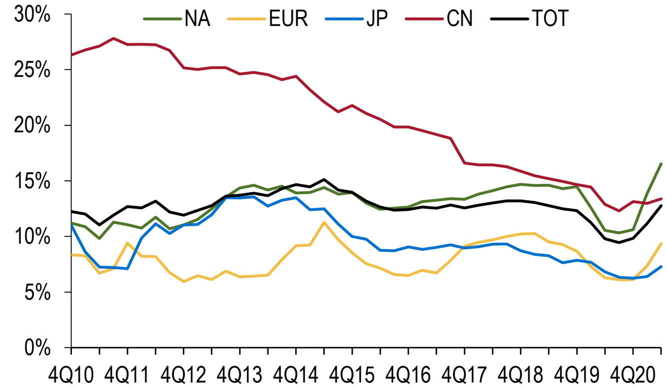
Most G-SIBs sharply outperformed earnigns and provisions forecasts

Chart 3.1. Earnings and Provisions vs. Consensus Estimates
(Percent of sample with available forecasts in each intervals)



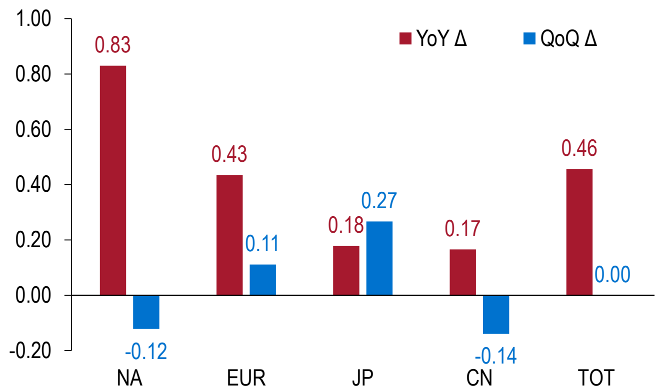
Underlying RoE has closed the covid gap in NA and Europe, with much slower recovery in other regions…

Chart 3.2. Operating ROE
(Percent of average equity, ex conduct charges)



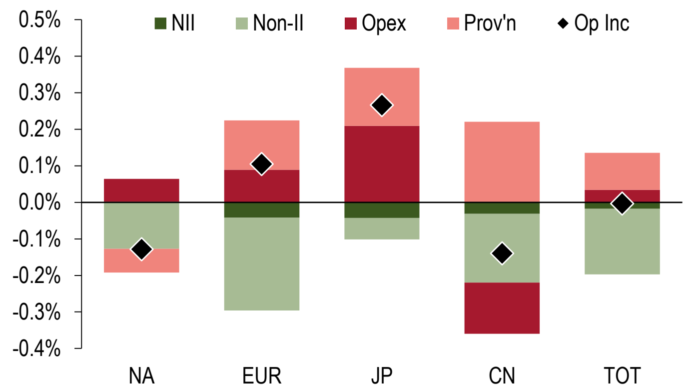
… in line with underlying RoA

Chart 3.3. Change in Operating ROA
(Percentage points, ex conduct charges)



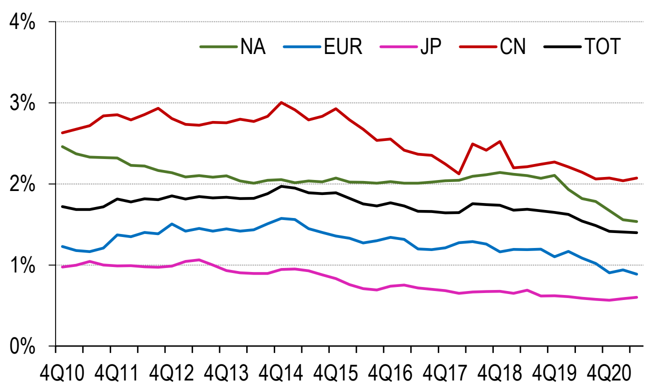
Cost cutting (expense and provisions) supported earnings; net interest income remains a drag…

Chart 3.4. Decomposition of Change in Operating ROA, 2021:Q2 vs. 2021:Q2 (Percentage points)



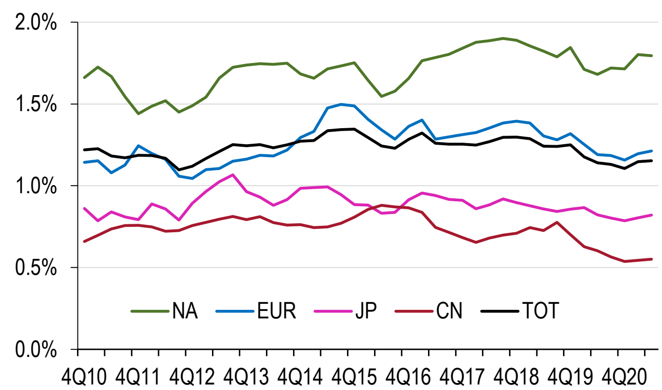
… as sharply flatter yield curve accelerated NIM compression …

Chart 3.5. Annualized Net Interest Margin, by Region
(Percent)



… while non-interest income cooled off from a strong Q1 in line with seasonality

Chart 3.6. Non-Interest Income to Average Assets, by Region
(Percent)



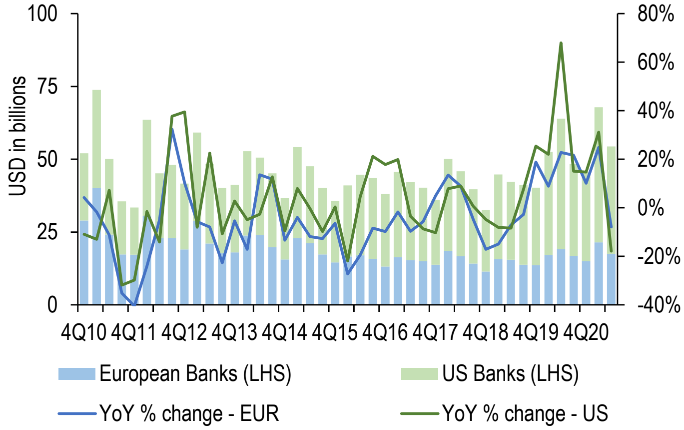
Sources: Bank financial statements, SNL, Bloomberg, and IMF Staff.
Note: Panel 1 is based on consensus expectations as of March 31, 2021. Panels 2 to 4 shows 'underlying' operating performance which excludes tax, non-operating items and misconduct charges. In panels 4, NII = Net interest income; Non-II = Non-interest income; Opex = Operating expense; Prov'n = Provision for loan losses; Op Inc = Operating income before taxes and extraordinary items.

Market Revenues and Market Risk

Markets revenues contracted yoy for the first time since 2021:Q2, but overall volume remains higher than pre-COVID levels

Chart 4.1. Investment Banking and Trading Revenues

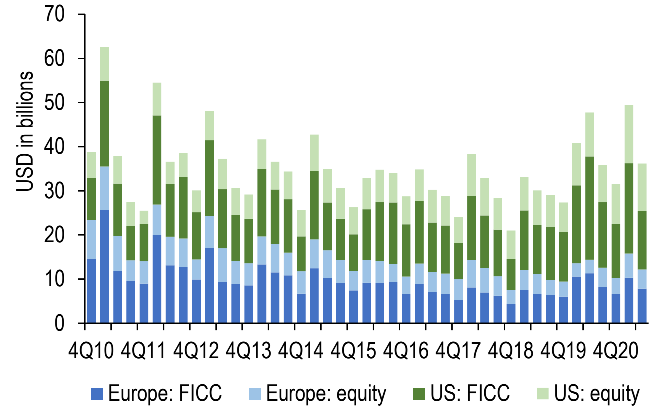
(USD in billions; Percent yoy)



FICC was weaker than equities tradings

Chart 4.2. Trading Revenues, by FICC and Equities

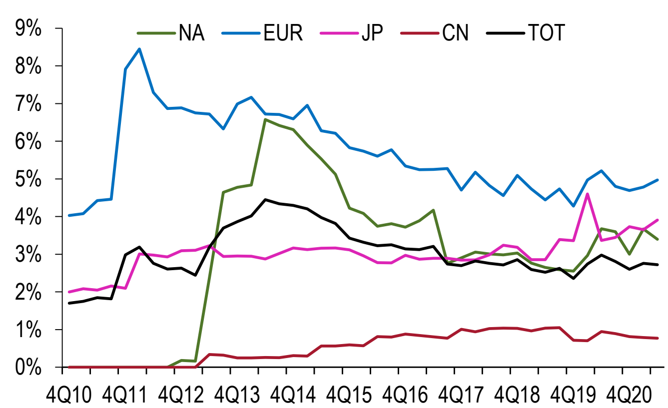
(USD in billions)



Market risks increased further, led by the US and European G-SIBs

Chart 4.3. Market RWA / Total RWA

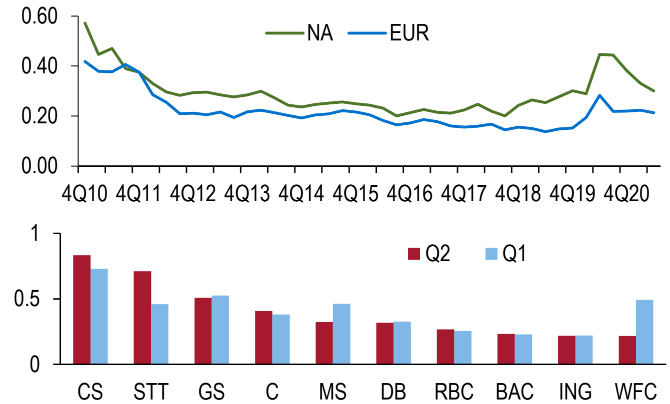
(Percent)



Value-at-Risk largely normalized but showing large dispersions across individual G-SIBs

Chart 4.4. Average Value-at-Risk / Total Assets

(Basis points)



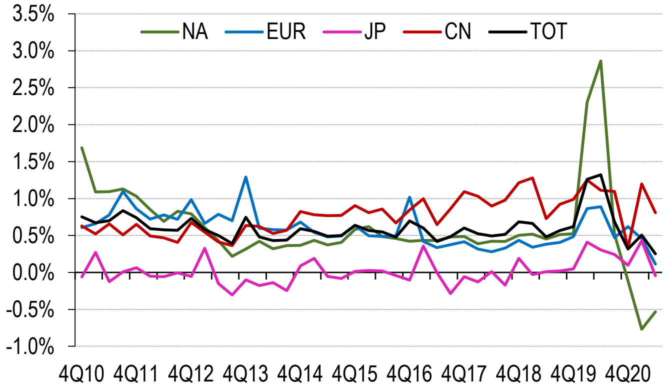
Sources: Various brokerage analysts, and IMF Staff analysis.

Note: FICC = Fixed income, currencies and commodities. RWA = Risk-weighted assets. Level 3 assets is a category exposures, mainly unlisted securities or other illiquid investments, whose valuation is deemed uncertain and volatile. Value-at-risk represents a statistical estimate of the daily loss in a 95-percent worst-case outcome, including risks related to interest rates, equities, currencies, commodities and other exposures, offset by the diversification benefits of hedging across asset classes.

Asset Quality and Credit Costs

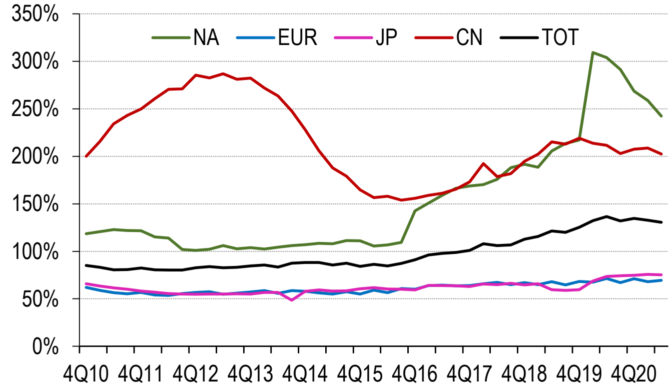
G-SIBS in all regions continue to cut back provisions ...

Chart 5.1. Provision Expense / Average Loans (Annualized)
(Percent)



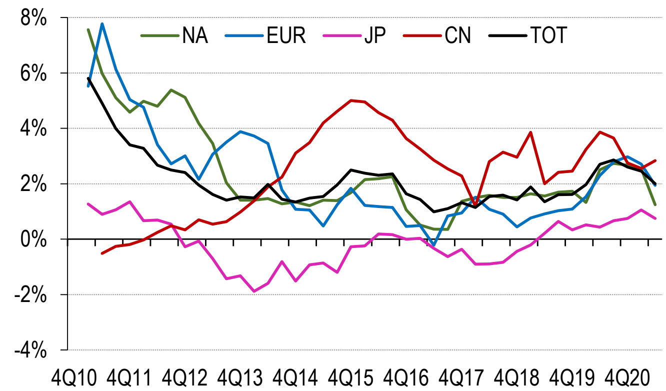
...but reserve coverages remain comfortably higher than before

Chart 5.2. Loan-Loss Reserves / NPLs
(Percent)



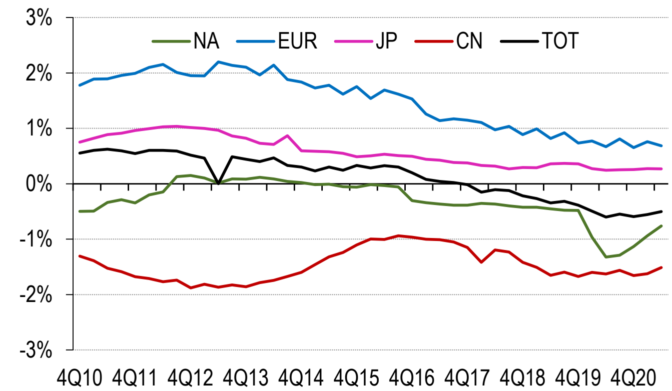
New NPL formation turned decidedly lower except in China

Chart 5.3. New NPL Formation / Average Loans (Annualized)
(Percent)



Net NPL ratios remain at healthy level

Chart 5.4. Average Net NPL Ratio, 2010:Q4 to 2020:Q3
(Percent)



Sources: Bloomberg, SNL, IMF staff analysis.
Note: New NPL formation is estimated from two identities: $NPL_{EOP} = NPL_{BOP}$ + *New NPLs – Write-offs net of recoveries*, and $LLR_{EOP} = LLR_{BOP}$ + Provision charge – *Write-offs net of recoveries*, where terms in italics are derived from reported terms in standard font; LLR = loan-loss reserves, EOP = end of period, BOP = beginning of period. Net NPL ratio = Gross NPLs less loan-loss reserves, divided by average loans.