G-SIB MONITOR

MONETARY AND CAPITAL MARKETS DEPARTMENT

December 4, 2020

Highlights:

- *G-SIB valuations have rebounded, reflecting better 2020:Q3 results and stronger recovery prospects.*
- *Capital ratios rose in most regions, driven by earnings, slower asset growth and lower capital distributions.*
- *Earnings rebound was driven by lower loan-loss provisions and robust market revenues; but net interest margins continue to decline, and high market revenues and lower provisions may not be sustainable.*

Sharp rebound in bank equity valuations (Page 2). G-SIB equities have risen on average by 9 and 16 percent over the past one and three months, outperforming global equities by 3 and 2 percent, respectively. Strong performance, led by sharp rebounds among European banks, has been supported by above-consensus 2020:Q3 earnings and expected macro recovery upon introduction of effective COVID-19 vaccines.

Capital ratios rose in 2020:Q3 for G-SIBs in all regions except China. (2.1 to 2.6) In the U.S. and Europe, CET1 ratio improvement in 2020:Q3 followed increases in 2020:H1 and were driven by a combination of lower loan-loss provision charges, low capital deductions (a by-product of dividend and buyback restrictions, especially in Europe), and slower RWA growth. (2.1, 2.2) Japanese G-SIBs saw CET1 ratios rebound after declines in the first half of the year, mainly on lower capital deductions. (2.3) Only Chinese G-SIBs saw CET1 ratios continue to decline in 2020:Q3, albeit at a much slower pace than in the first half, mainly on continued RWA growth. (2.4) Deceleration of loan and RWA growth in 2020:Q3 was supportive across all regions. (2.5) In addition, simple leverage ratios improved in 2020:Q3, particularly in the US and Japan. (2.6)

Earnings rebounded sharply in 2020:Q3, mainly on lower loan-loss provision charges. (3.1 to 3.4). Twelve of 30 G-SIBs delivered 2020:Q3 earnings more than 20 percent above market expectations, driven entirely by lower than expected provision charges. More than 20 banks reported provisions below consensus by more than 20 percent. (3.1) Reported operating ROEs rebounded in all regions, particularly China, from 2020:2Q troughs (3.2); while on an unlevered basis (operating ROA), North American banks' returns bounced most sharply. Only Japanese G-SIBs reported quarter-on-quarter declines in ROAs. (3.3) Lower provision charges contributed most strongly to North American and European banks' returns. Chinese banks saw some improvement in non-interest income generation. (3.4)

Revenue margin trends were mixed, with lower net interest in some regions balanced by higher non-interest income (4.1 to 4.6). Revenue margins (relative to assets), which have declined across all regions over the past few years, were mixed in 2020:Q3. (4.1, 4.2) Net interest margins fell modestly in all regions except Japan, extending the past year's precipitous decline particularly in North America. (4.3, 4.4) Some commentators note that borrower repayment holidays may have exacerbated the decline; but it also displays continuation of pre-pandemic trends. Non-interest income, generally more volatile, was mixed in 2020:Q3, reversing trend from the previous quarter but in most regions but generally lower relative to a year earlier. (4.5, 4.6)

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Capital markets revenues fell in 2020:Q3 from the previous quarter's spike, but remained healthy. (6.1, 6.2). Following a 2020:Q2 that generated the highest revenues since 2012, secondary market trading services and investment banking fell quarter-on-quarter but remained +14 percent above a year earlier. Very robust markets revenues over the past three quarters have been a major upside surprise, counteracting other pressures.

G-SIBs are managing down risk exposures, but US and European value-at-risk estimates have risen (5.3 to 5.6). The most widely-available measures suggest G-SIBs have been reducing exposures to risky assets. Reductions in market risk-weighted assets and 'level 3' (illiquid, hard-to-value) assets are may be primarily intended to reduce loss potential (5.3, 5.4). Banks have also sharply reduced their gross derivatives holdings, which are mainly intended to hedge risk, perhaps to reduce risk-weighted and simple leverage capital requirements. (5.5) Despite this apparent intent to reduce exposures, 'value-at-risk' suggests that earnings tail risk (from interest rates, commodities, currencies and other instruments) has risen in recent quarters. (5.6)

Falling loan-loss provisions has driven earnings rebound, but underlying indicators hint at deterioration. (6.1 to 6.6) Following sharp spikes in loan-loss provisions over the first two quarters, in 2020:Q3 G-SIBs reported sharply lower provision charges, especially in North America and Europe. (6.1) Despite the sharp decline, provision charges remain higher than a year earlier across all regions. (6.2) In part, declining provisions in North America reflects the very high reserves positions banks had built in earlier quarters. (6.3) However, other conventional metrics suggest that banks are absorbing increased credit risk. Estimated new NPL formation (new NPLs relative to average loans) have risen in recent quarters across all regions except Japan (6.4), and reported NPL ratios have risen over the past year (6.5). These reported credit risk indicators reflect the benefits of aggressive policy initiatives to support borrowers' repayment abilities (e.g., moratoria) or otherwise defer full recognition of credit deterioration. Nonetheless, a longer perspective highlights the very significant improvements over the past decade in bank asset quality—an additional form of increase in capital buffers. (6.6)

Share Price Performance and Valuations

Chart 1. Price Trend (1/1/2016 = 100)

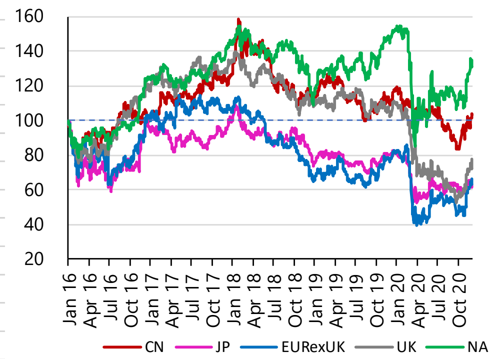


Chart 2. Valution Trajectory (Price / book)

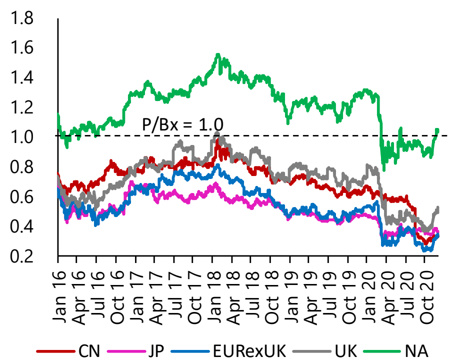
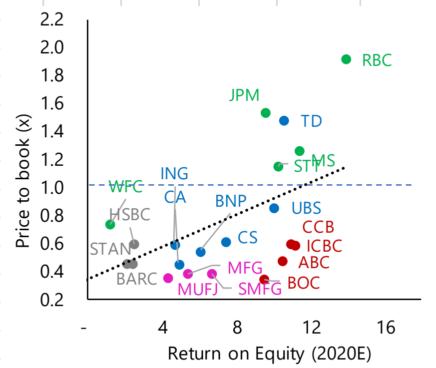


Chart 3. Price to Book vs 2020 ROE



Ticker	Bank Name	Market Cap (USD Bn)	Price to Book	% Price Change (1D)	% 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	251	1.0	1.3	20.7	12	(17)	42	0.85	33	10.2	2.5
BNY	Bank of New York Mellon	35	0.9	1.1	13.6	6	(21)	-	2.13	32	9.4	3.1
C	Citigroup	119	0.7	2.9	35.2	10	(29)	49	1.03	38	10.1	3.6
GS	Goldman Sachs	85	1.0	2.0	24.5	13	3	82	0.77	30	10.9	2.1
JPM	JP Morgan	370	1.5	1.5	21.2	20	(13)	40	0.82	30	9.9	3.0
MS	Morgan Stanley	116	1.3	0.9	29.3	20	25	45	0.40	33	10.8	2.2
STT	State Street	26	1.2	2.0	23.5	5	(7)	-	2.79	35	10.4	2.8
WFC	Wells Fargo	118	0.7	1.8	30.4	16	(47)	54	0.97	40	10.8	1.4
TD	Toronto Dominion	100	1.5	0.4	20.3	9	(3)	-	0.58	19		4.5
RBC	Royal Bank of Canada	117	1.9	(0.5)	14.1	7	4	-	0.47	16	9.5	4.1
North America		847	1.2	1.4	24.4	13	(15)	49	0.87	32	9.4	2.8
BARC	Barclays	34	0.5	2.6	37.3	42	(18)	61	1.39	41	10.8	-
HSBC	HSBC Group	114	0.6	3.0	25.8	31	(29)	45	0.73	31	8.6	-
STAN	Standard Chartered	21	0.5	2.2	35.8	31	(32)	47	0.92	32	9.3	-
United Kingdom		134	0.6	2.9	27.9	31	(30)		0.77	31	8.8	-
BNP	BNP Paribas	68	0.6	1.7	44.4	25	(15)	33	1.23	36	11.0	-
CA	Credit Agricole	36	0.5	1.7	48.6	23	(20)	27	1.97	35	13.0	-
CS	Credit Suisse	32	0.6	0.2	31.0	17	(10)	46	1.07	31	11.1	0.6
DB	Deutsche Bank	24	0.4	0.6	15.4	20	38	58	1.43	37	7.1	-
ING	ING Group	40	0.6	0.3	35.2	23	(22)	39	1.08	38	11.0	-
SAN	Banco Santander	56	0.6	4.7	56.9	53	(25)	35	1.27	40	11.2	-
SG	Societe Generale	18	0.3	2.1	47.8	39	(42)	34	2.39	41	12.0	-
UBS	UBS Group	56	0.9	(0.9)	18.6	16	9	-	0.52	27	10.1	2.6
UCG	Unicredit Group	22	0.3	0.4	20.8	(1)	(39)	73	1.79	40	12.6	-
Continental Europe		351	0.4	1.4	34.5	23	(13)	40	1.39	37	11.1	1.7
MUFJ	Mitsubishi UFJ Financial Group	59	0.4	1.1	7.8	3	(23)	39	1.77		8.5	5.5
MFG	Mizuho Financial Group	33	0.4	0.5	1.4	(7)	(20)	-	1.89		8.4	5.6
SMFG	Sumitomo Mitsui Financial Group	41	0.4	2.6	5.9	1	(22)	-	1.62		9.9	6.1
Japan		133	0.4	1.4	5.5	(0)	(22)	39	1.76		8.9	5.7
ABC	Agricultural Bank of China	174	0.5	(1.7)	7.6	18	(13)		0.73	25	15.4	6.7
BOC	Bank of China	136	0.3	(0.4)	6.6	10	(18)	35	0.92	21	14.5	7.7
CCB	China Construction Bank	202	0.6	(0.3)	9.6	15	(8)		0.69	25	15.4	5.7
ICBC	Industrial & Comm Bank of China	281	0.6	(0.2)	10.7	21	(15)	-	0.55	26	14.9	5.7
China		793	0.5	(0.6)	8.8	16	(14)		0.71	25	15.1	6.4
Total		2,259	0.6	0.8	19.8	16.6	(16.1)		1.1	30.7	11.6	3.9
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												

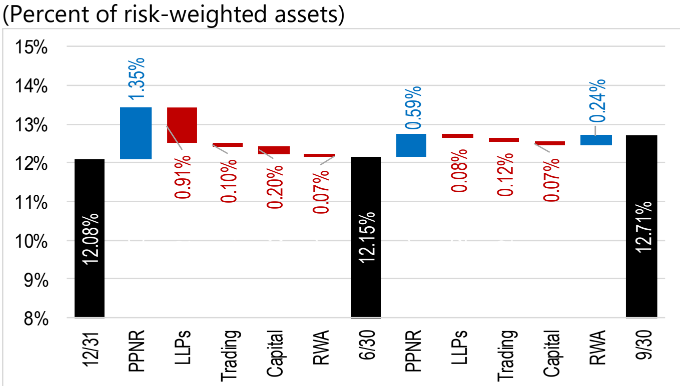
Sources: Bloomberg Finance L.P.; and IMF staff analysis.

Note: Pricing is as of December 2, 2020. 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.

Common Equity Tier 1 Capital: Progression and Position against Requirements

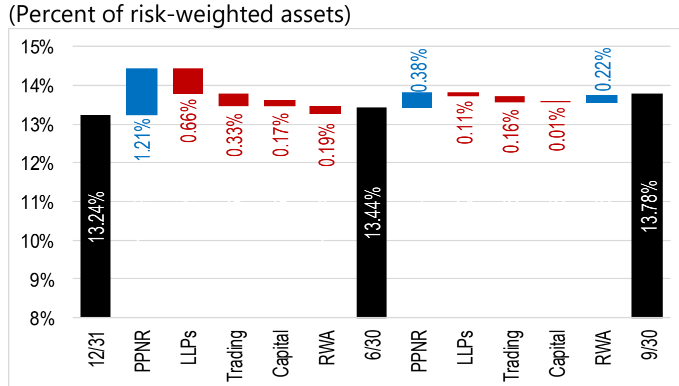
U.S., European and Japanese G-SIBs' CET1 ratios rose in Q3 …

Chart 2.1. CET1 Progression: 2020:H1 and Q3 – U.S. G-SIBs
(Percent of risk-weighted assets)



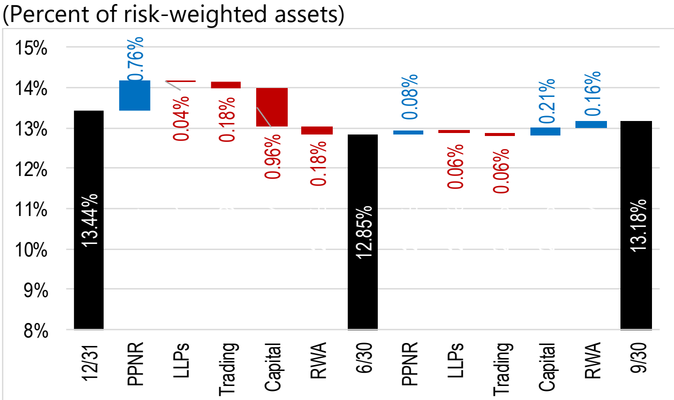
… as provision charges fell sharply relative to H1 in the US and Europe, capital distribution fell, …

Chart 2.2. CET1 Progression: – European and UK G-SIBs
(Percent of risk-weighted assets)



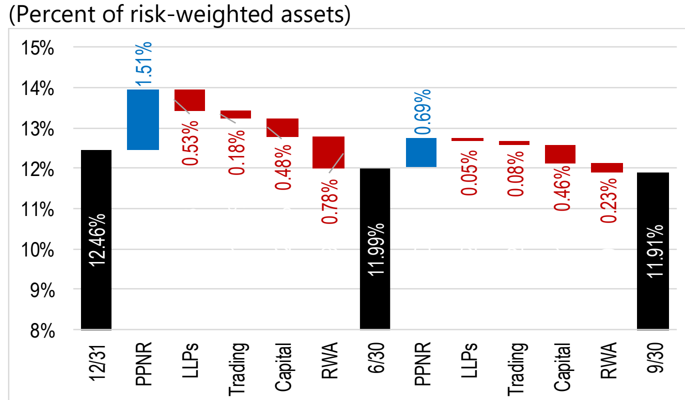
… and RWA growth decelerated to below capital accretion.

Chart 2.3. CET1 Progression: 2020:Q1 and Q2 – Japanese G-SIBs
(Percent of risk-weighted assets)



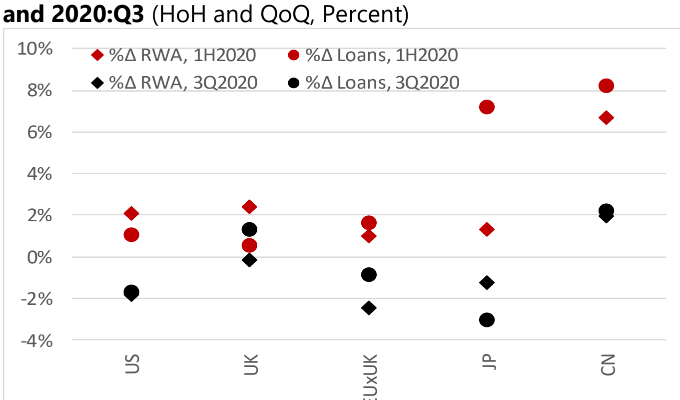
Chinese G-SIBs' CET1 deterioration moderated, also on lower provisions and RWA drag.

Chart 2.4. CET1 Progression: 2020:Q1 and Q2 – Chinese. G-SIBs
(Percent of risk-weighted assets)



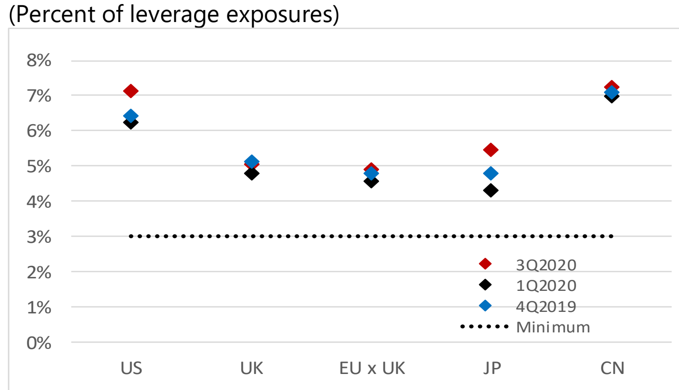
Loan and risk-weighted asset growth decelerated or turned negative in most regions during 2020:Q3.

Chart 2.5. Sequential Growth of Loans and RWAs, 2020:H1 and 2020:Q3 (HoH and QoQ, Percent)



Leverage ratios have rebounded and are now higher year-to-date, particularly in the U.S. and Japan.

Chart 2.6. Average Leverage Ratio, 2019:Q4 to 2020:Q3
(Percent of leverage exposures)



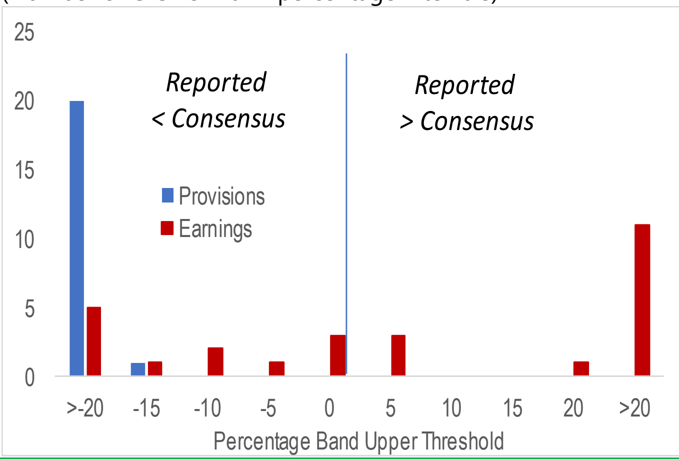
Sources: Bank Financial Statements; Bloomberg Finance L.P.; Basel Committee; national supervisors; SNL; and IMF staff.
Note: CET1= common equity tier 1 ratio; RWA = risk-weighted assets PPNR = pre-provision net revenue; LLPs = loan-loss provisions; Trading = gains on trading and investment; Capital = capital management (dividends, buybacks, 'Other Comprehensive Income.'

Earnings Overview

Most G-SIBs sharply out-performed Q3 earnings forecasts on lower than anticipated provisions.

Chart 3.1. Earnings and Provisions vs. Consensus Estimates

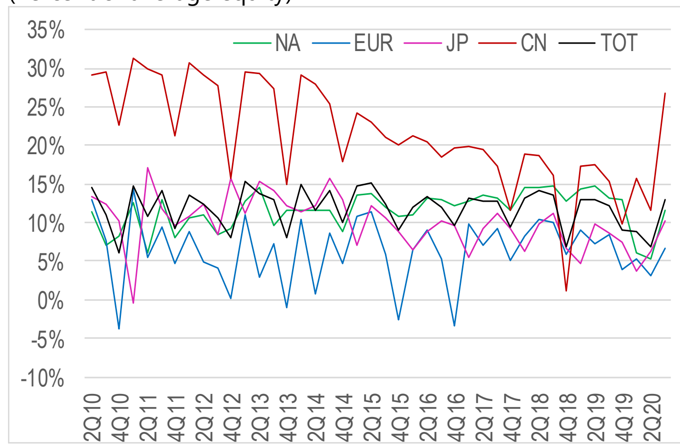
(Number of G-SIBs within percentage intervals)



And ROEs rebounded across all regions, particularly among Chinese peers.

Chart 3.2. Operating ROE

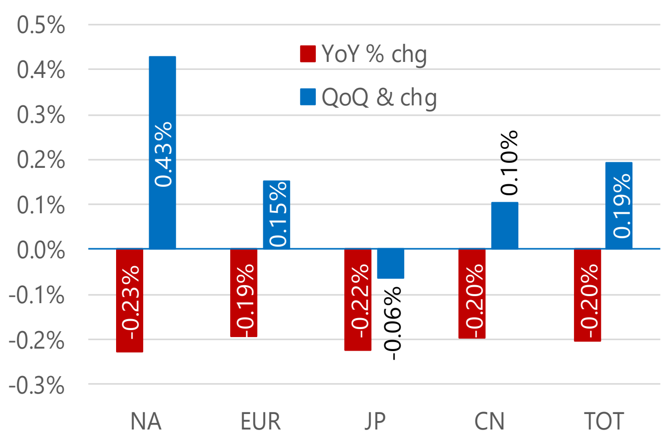
(Percent of average equity)



Underlying ROA rebounded in 3Q across all regions except Japan.

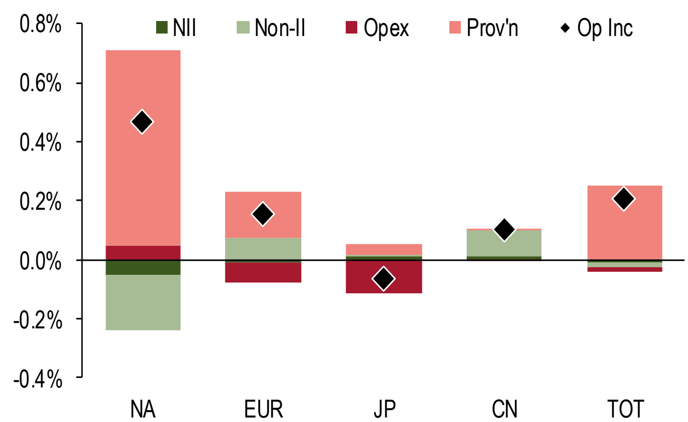
Chart 3.3. Change in Pretax Operating ROA

(Percentage points of average assets, ex conduct charges)



Lower provisions in the US and EUR were most significant; non-interest income was a drag for US.

Chart 3.4. Decomposition of Change in Operating ROA, 2020:Q3 vs. 2020:Q2 (Percentage points)



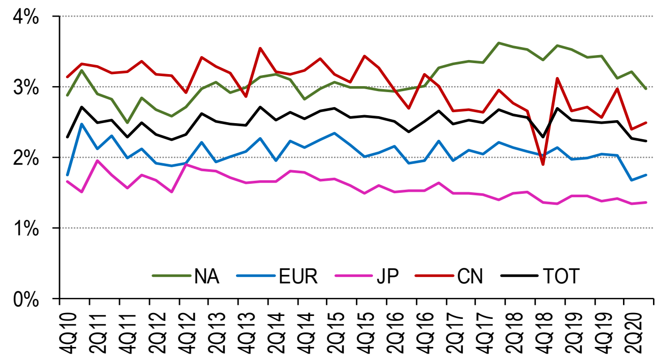
Sources: Bank Financial Statements; Bloomberg Finance L.P.; SNL; and IMF staff.

Note: Panel 1 is based on consensus expectations as of October 13, 2020. Panels 2 to 4 shows 'underlying' operating performance which excludes tax, non-operating items and misconduct charges.

Revenue Performance

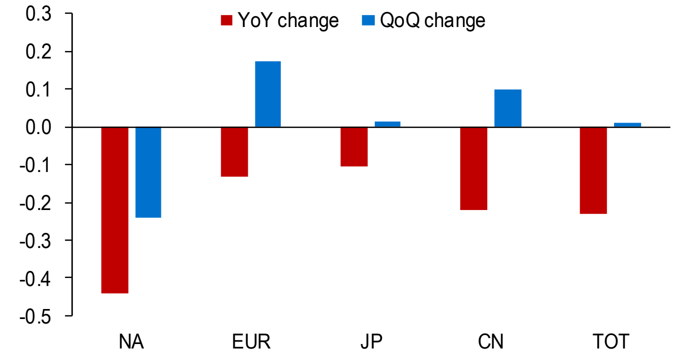
Revenue margins remained weak, falling in NA and rebounding little after sharp declines in EUR and CN.

Chart 4.1. Reported Revenues/Assets, by Region
(Percent)



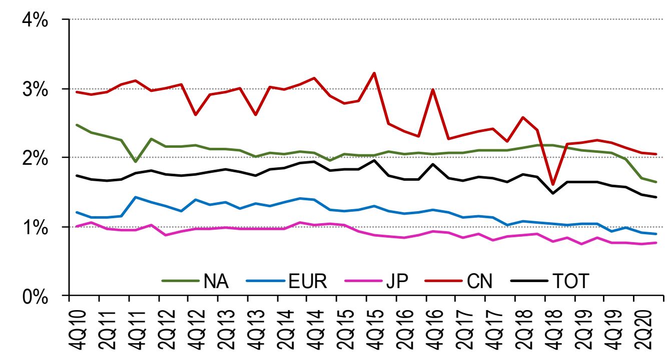
… and remained well below a year earlier across all regions.

Chart 4.2. Change in Revenues/Assets, 2020:Q3 vs. Previous Periods
(Percentage points)



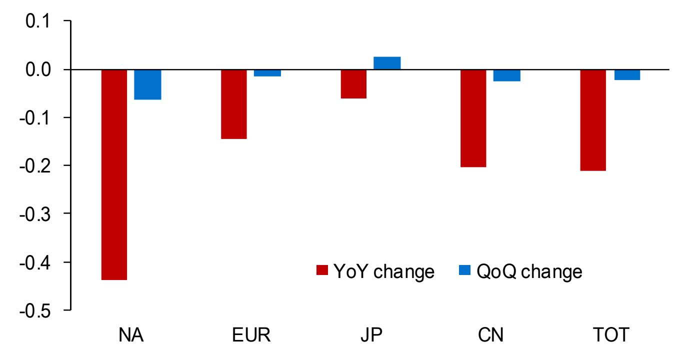
NA G-SIBs saw the largest NIM compression since GFC, while NIM continues to grind lower in other regions …

Chart 4.3. Annualized Net Interest Margin, by Region
(Percent)



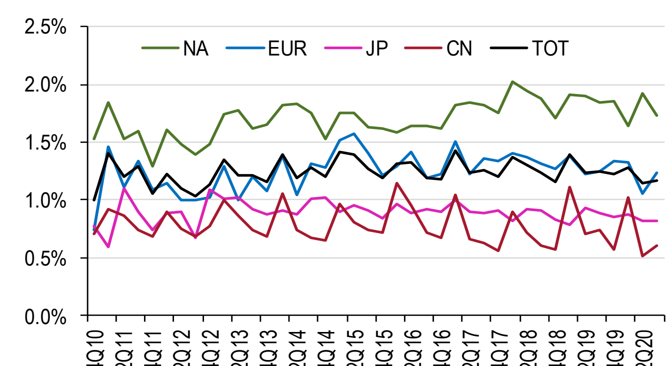
… with no sign of recovery across any region.

Chart 4.4. Change in Net Interest Margin, 2020:Q3 vs. Previous Periods (Percentage points)



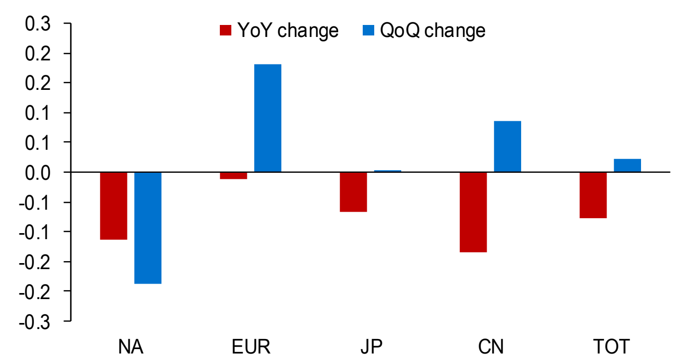
Non-interest income margins drifted down in CN, JP and EUR …

Chart 4.5. Non-Interest Income to Average Assets, by Region
(Percent)



… but 2020:Q3 saw a modest rebound in EUR and CN.

Chart 4.6. Change in Non-Interest Income to Average Assets, 2020:Q3 vs. Previous Periods (Percentage points)

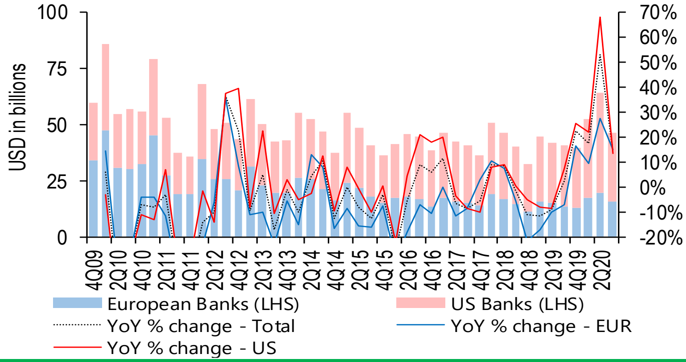


Sources: Bloomberg Finance L.P.; SNL; and IMF staff analysis.
Note: In panels 5 and 6, NII = Net interest income. Non-II = Non-interest income. Opex = Operating expense. Prov'n = Provision for loan losses. Op Inc = Operating income before taxes and extraordinary items.GFC = global financial crisis (2008-09).

Market Revenues and Market Risk

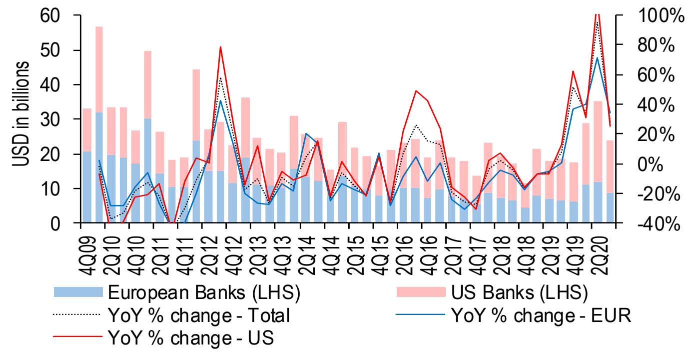
Markets-related revenues moderated in 2020:Q3 but remained robust by recent seasonal standards …

Chart 5.1. Investment Banking and Trading Revenues
(USD in Millions, Percent)



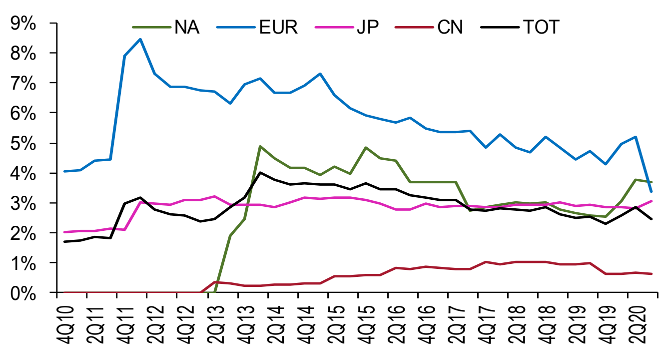
… supported by still-strong FICC conditions.

Chart 5.2. Trading Revenues – Fixed Income, Currency and Commodities) (USD in Millions, Percent)



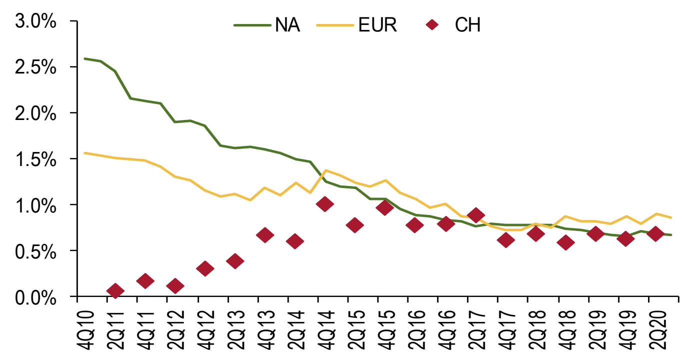
Swiss and French peers' reported market risk fell sharply in 2020:Q3, driving the EUR average lower.

Chart 5.3. Market RWA / Total RWA
(Percent)



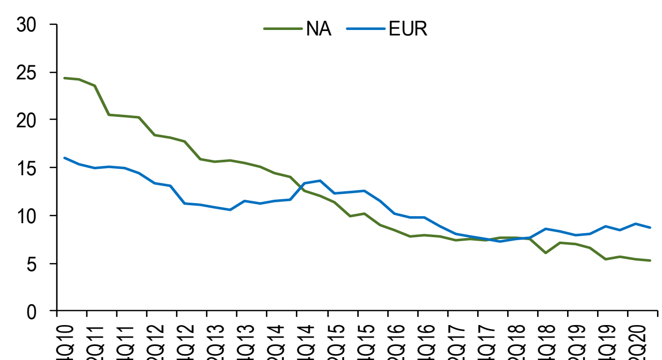
Level 3 asset positions remain stable.

Chart 5.4. Level 3 Assets / Total Assets
(Percent)



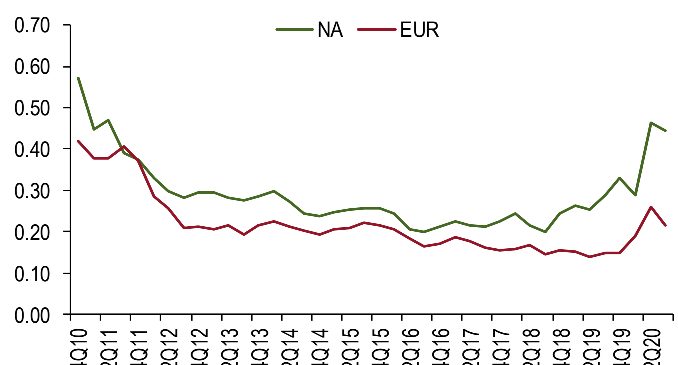
EUR G-SIBs' swaps positions are rebounding, perhaps on higher hedging activity, as US peers' drift lower.

Chart 5.5. Notional Derivatives / Total Assets
(Percent)



However, both US and European G-SIBs have seen a sharp upswing in value-at-risk over recent quarters.

Chart 5.6. Average Value-at-Risk / Total Assets
(Basis points)



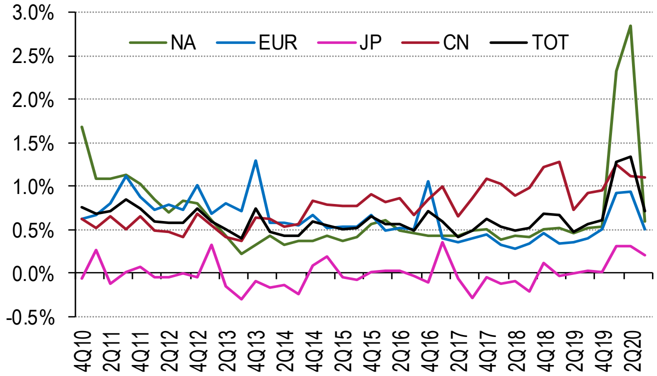
Sources: Various brokerage analysts; and IMF staff analysis.
Note: FICC = Fixed income, currencies and commodities. RWA = Risk-weighted assets. Level 3 assets is a category exposures, mainly unlisted securities or other illiquid investments, whose valuation is deemed uncertain and volatile. Value-at-risk 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

Provision expenses have fallen compared with 2020:Q2, particularly among US G-SIBs, …

Chart 6.1. Provision Expense / Average Loans (Annualized)

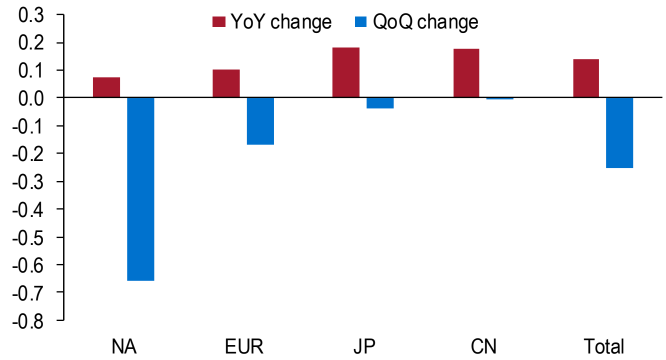
(Percent)



… though charges remain higher than before the pandemic.

Chart 6.2. Change in Provision Expense / Loans

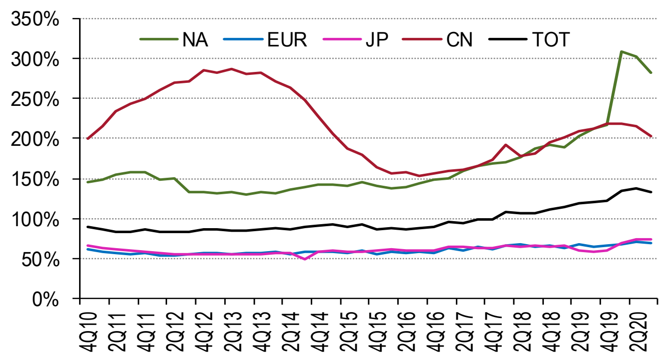
(Percentage Points)



However, declining provisions to some extent reflects a slight decline of reserves coverage in NA and CN.

Chart 6.3. Loan-Loss Reserves / NPLs

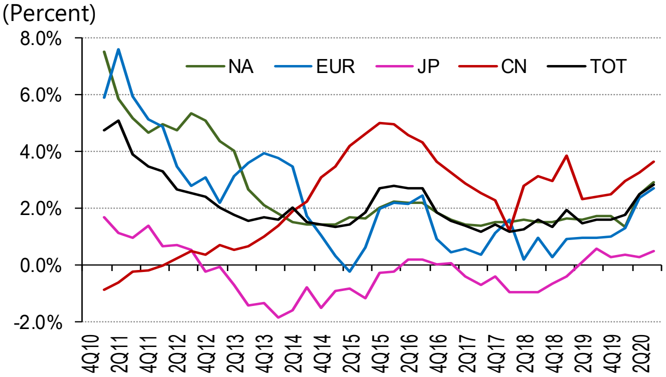
(Percent)



New NPL formation is trending higher in all regions except JP.

Chart 6.4. New NPL Formation / Average Loans (Annualized)

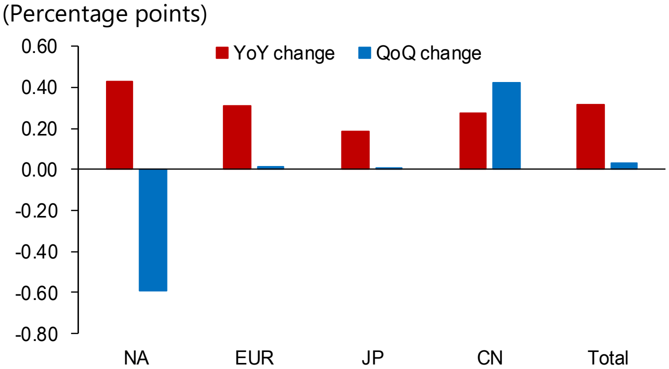
(Percent)



Gross NPL ratios are higher year-on-year across all regions.

Chart 6.5. Change in Average Gross NPL Ratio

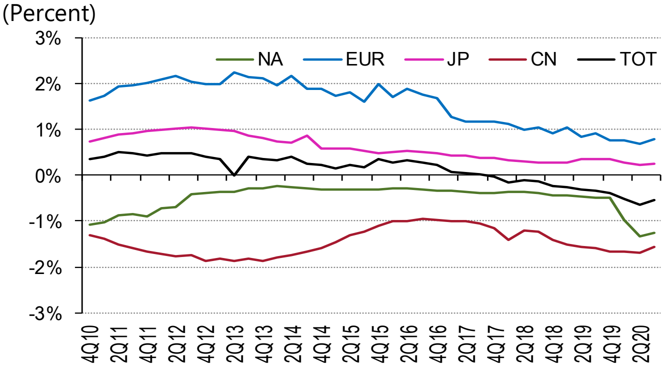
(Percentage points)



The pandemic-related credit cycle is unfolding against a backdrop of gradual asset quality improvement.

Chart 6.6. Average Net NPL Ratio, 2010:Q4 to 2020:Q3

(Percent)



Sources: Bloomberg Finance L.P.; SNL; and 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.