



G-SIB Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

- *Shares have rebounded over the past month from earlier losses, with relative performance broadly aligned with earnings. Market valuations of banks continue to vary significantly.*
- *Reported earnings were at or above expectations, but market analysts expect further pressure on net interest margins and a risk of higher credit costs.*
- *The improvement in capital positions has leveled off, mainly reflecting higher payouts. Funding indicators are stable but vary significantly across regions – European banks have the lowest deposits relative to loans, while Japanese and Chinese banks are deposit-rich.*

Share prices have risen over the past month, with most regions now showing modest gains year-to-date (page 2). Trading in large bank equities has been choppy, with the recent rises balancing weakness over most of the summer. North American G-SIBs (+20% YTD) have delivered the most robust gains, consistent with their strong financial performance. Chinese G-SIB shares (-5% YTD) have been weakest on falling margins and macro concerns. Valuations continue to vary significantly. Only North American banks' price-to-book ratios are above one.

2Q2019 reported profitability was better than expected, but analysts see rising downside risks (Charts 2.1 to 2.6). Most banks' 2Q2019 earnings and revenues beat relatively subdued forecasts, which declined ahead of results announcements (2.1). Profitability was stable quarter-on-quarter (QoQ) in most regions, but year-on-year (YoY) trends were weaker—down slightly in Asia and sharply lower in Europe (2.3, 2.4). Most analysts' research predicts further earnings compression, driven mainly by revenue pressures.

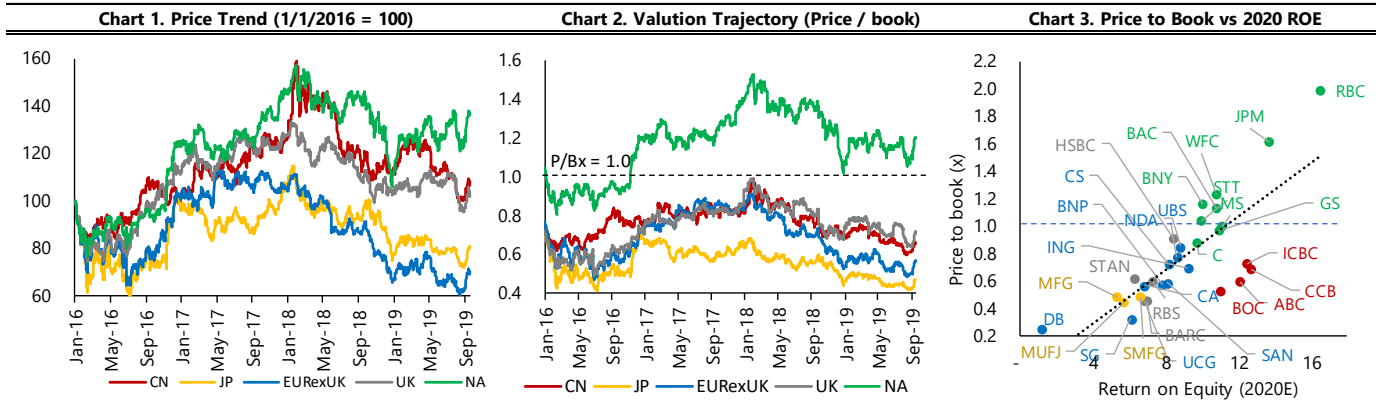
Revenue margin (on assets) declined in many regions as net interest margins (NIMs) continued their long-term decline (3.1 to 3.6). Japanese and European peers had particularly disappointing NIMs, down 13 and 6 basis points respectively. Analysts expect this deterioration to continue given recent and anticipated policy easing and expectations that interest rates will remain low for longer than previously anticipated.

Capital markets revenue pools were once again weak, and US banks continue to take share. Overall markets revenues continued to decline. The investment banking and markets global revenue pool shrank 10% YoY in 2Q2019, as did both fixed income and equities trading. US banks continued to gain share in fixed income and (slightly) in equities (4.1 to 4.3). Market risks declined as less balance sheet was devoted to market portfolios (4.4 to 4.6).

Asset quality continues to improve, with low provision charges (5.1 to 5.6). GSIBs' gross NPL ratios fell across all regions, with a particularly sharp decline in Europe supported by large asset disposals (5.1 and 5.2). Loan-loss reserves and net NPL positions strengthened in Europe and fell elsewhere (5.3 and 5.4). Credit costs also remained very low, though many analysts have warned that these could rise as the economy slows (5.5). Chinese banks lowered provisions sharply in 2Q2019, in the context of weak revenues (5.6).

Capital and liquidity indicators remained stable (6.1 to 6.6). After declining for four quarters, risk-weighted assets (RWA) stabilized in 2Q2019 (6.1). Tier 1 capital ratios, however, declined slightly QoQ in Europe, Japan and China. Some analysts see downside risk to dividend payouts, especially in Europe, which would lower the optically attractive dividend yields and could weaken market valuations further. Deposit-based funding indicators remained broadly stable, but significant differences in funding composition remain across regions, with European banks most dependent on non-deposit sources of funding. Over the past few years, Japanese banks' loan-deposit ratios (LDR) have improved, while Chinese banks' LDRs have deteriorated following robust loan growth and perhaps some deposit disintermediation.

1. Share Price Performance and Valuations



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	381	1.6	0.5	10.6	8	22	39	0.15	20	10.5	3.0
BAC	Bank of America	279	1.1	0.0	10.8	5	22	43	0.21	25	10.4	2.4
WFC	Wells Fargo	216	1.2	0.4	10.3	6	6	42	0.18	22	11.4	4.2
C	Citigroup	158	0.9	0.3	9.8	3	34	53	0.57	25	11.3	2.9
GS	Goldman Sachs	81	1.0	(0.3)	8.0	10	29	58	0.64	24	12.2	2.3
MS	Morgan Stanley	73	1.0	(0.0)	10.7	2	11	55	0.65	26	11.9	3.2
BNY	Bank of New York Mellon	44	1.2	1.1	10.7	8	(0)	-	0.39	24	9.3	2.6
STT	State Street	23	1.0	0.4	20.4	9	(4)	46	0.61	30	17.9	3.1
RBC	Royal Bank of Canada	115	2.0	0.4	6.5	1	14	-	0.34	11	10.2	4.0
North America		1,368	1.3	0.3	10.1	5	19	46	0.34	22	11.0	3.1
HSBC	HSBC Group	153	0.9	(0.4)	2.1	(7)	(6)	-	0.54	20	8.8	6.5
BARC	Barclays	32	0.5	(0.8)	5.9	(2)	(2)	-	1.26	31	11.0	4.7
RBS	Royal Bank of Scotland	31	0.6	0.1	12.3	1	3	-	0.94	30	11.1	2.0
STAN	Standard Chartered	27	0.6	(1.4)	11.1	(4)	12	-	0.68	24	8.5	2.5
United Kingdom		243	0.7	(0.5)	5.8	(4)	(1)	-	0.81	25	9.7	4.8
BNP	BNP Paribas	61	0.6	(0.2)	7.9	6	11	29	1.13	24	11.0	6.9
DB	Deutsche Bank	17	0.3	(1.7)	16.7	15	4	71	2.76	36	-	1.5
CA	Credit Agricole	35	0.6	(0.3)	7.9	5	17	-	1.49	27	13.8	6.3
SG	Societe Generale	24	0.3	0.2	14.7	17	(9)	32	2.10	30	12.1	8.7
SAN	Banco Santander	67	0.6	(1.0)	1.0	(10)	(9)	32	0.98	27	11.1	4.6
UBS	UBS Group	44	0.8	0.4	11.8	(3)	(2)	-	0.39	24	10.9	6.2
UCG	Unicredit Group	27	0.5	0.2	14.4	4	10	88	1.71	37	13.8	2.5
ING	ING Group	41	0.7	(0.6)	10.0	(6)	0	-	0.88	26	11.3	7.2
CS	Credit Suisse	33	0.7	0.2	14.8	9	20	45	0.93	26	10.7	2.1
NDA	Nordea Bank	29	0.9	(0.1)	15.9	1	(8)	-	0.87	25	9.8	10.4
Continental Europe		376	0.6	(0.4)	10.5	4	4	45	1.41	28	10.4	5.6
MUFJ	Mitsubishi UFJ Financial Group	72	0.4	(1.0)	12.0	12	5	47	1.43	-	10.3	4.4
MFG	Mizuho Financial Group	39	0.5	(0.5)	8.3	10	(1)	47	1.58	-	9.7	4.5
SMFG	Sumitomo Mitsui Financial Group	49	0.5	(0.7)	8.7	(1)	4	46	1.30	-	11.6	4.8
Japan		160	0.5	(0.8)	10.0	8	3	47	1.43	-	10.5	4.5
ICBC	Industrial & Comm Bank of China	268	0.7	(0.9)	6.0	(11)	(6)	-	0.45	18	14.1	5.4
CCB	China Construction Bank	194	0.7	(0.3)	4.0	(8)	(7)	-	0.53	17	14.7	5.8
ABC	Agricultural Bank of China	169	0.6	(0.6)	3.3	(4)	(9)	-	0.61	15	14.6	6.3
BOC	Bank of China	140	0.5	(0.6)	3.6	(4)	(7)	-	0.79	15	13.2	6.7
China		771	0.6	(0.7)	4.3	(7)	-	-	0.58	17	14.1	6.0
Total		2,918	0.7	(0.4)	8.1	0.9	3.6	-	0.9	22.6	11.5	4.9
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

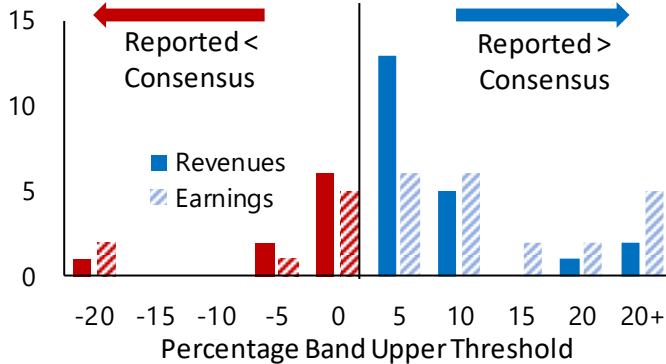
Note: Regional averages are asset-weighted average of each bank in the region

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. Earnings Performance

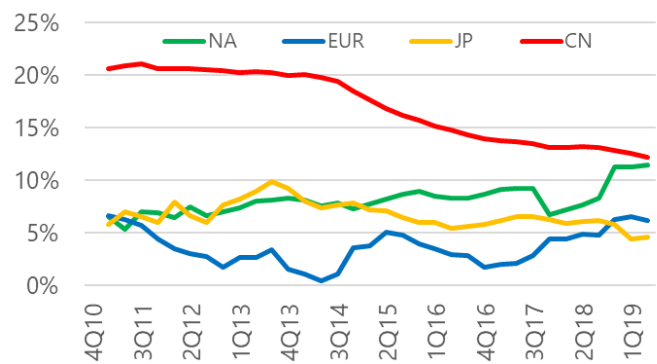
Most G-SIBs' 2Q2019 earnings and revenues beat (fairly cautious) consensus expectations

Chart 2.1. Revenues vs. consensus estimates
(Number of GSIBs within percentage intervals)



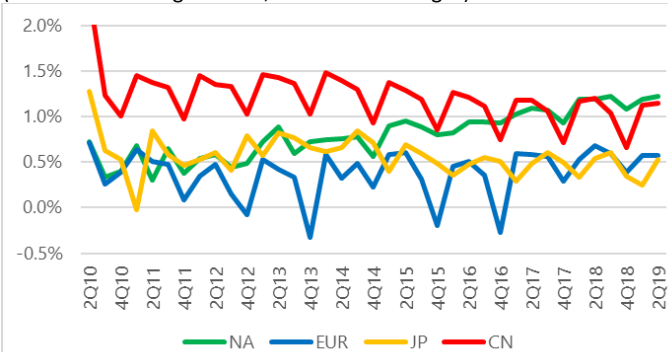
NA bank ROEs now almost match declining CN peers'; JP ROEs continue to decline and are now below EUR banks

Chart 2.2. Reported ROE, 4 Quarters Trailing
(Percent of average equity)



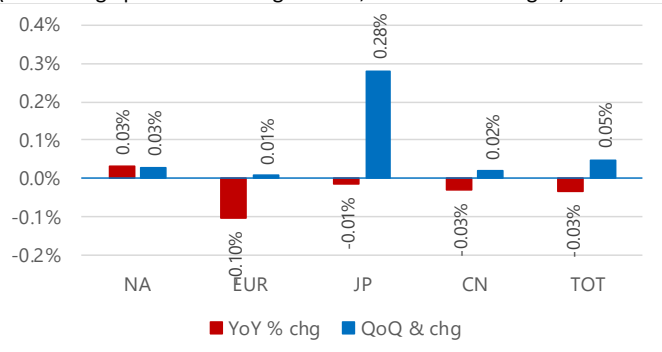
Operating ROA was essentially stable in most regions ...

Chart 2.3. Pretax Operating ROA
(Percent of average assets, ex conduct charges)



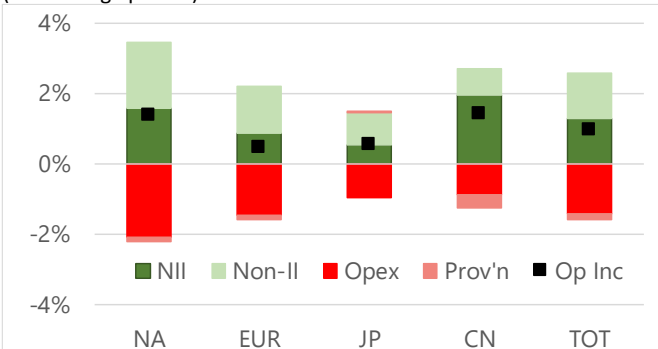
... except in JP, where quarterly earnings bounced

Chart 2.4. Change in Pretax Operating ROA
(Percentage points of average assets, ex conduct charges)



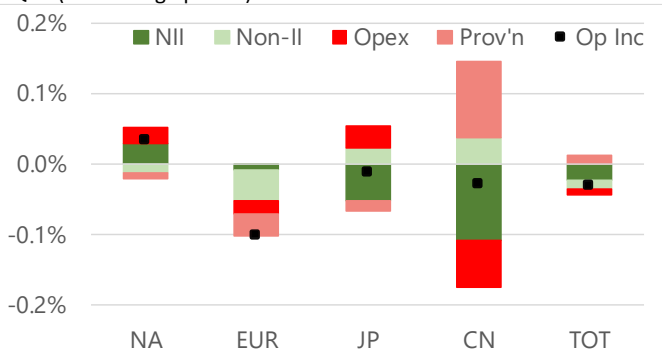
US GSIBs' higher profitability remains driven by robust revenues, while CN banks lead on operating costs

Chart 2.5. Decomposition of Operating ROA, by Region, 2Q2019
(Percentage points)



In EUR all earnings drivers deteriorated; in CN lower provisions offset the drag from lower NII

Chart 2.6. Decomposition of Change in Operating ROA, 2Q19 vs. 2Q18 (Percentage points)



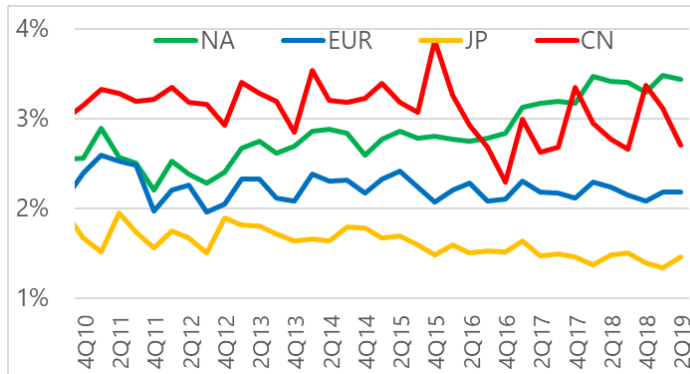
Sources: Bank financial statements, SNL, Bloomberg, and IMF Staff.

Note: Panel 1 is based on consensus expectations as of July 1, 2019. 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.

3. Revenue Performance

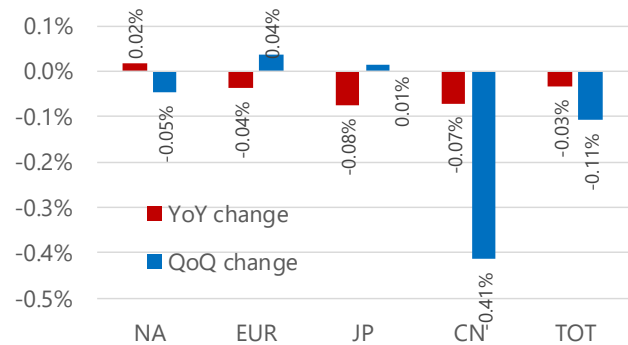
Revenue economics has been improving in NA, eroding in JP, and jagged around a downward trend in CN

Chart 3.1. Reported Revenues/Assets, by Region (Percent)



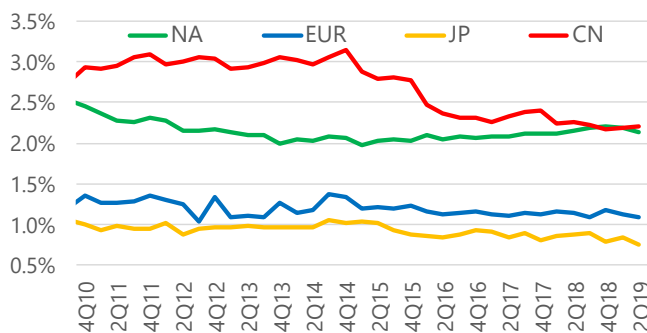
Revenues fell, relative to assets, in most regions over the past year

Chart 3.2. Change in Revenues/Assets, 2Q2019 (Percentage points)



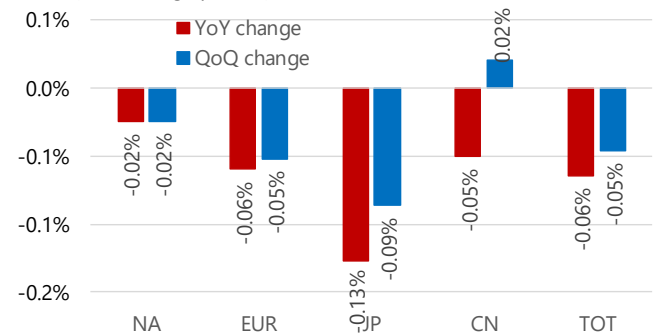
Net interest margins also fell across all regions ...

Chart 3.3. Net Interest Margin, by Region (Percent)



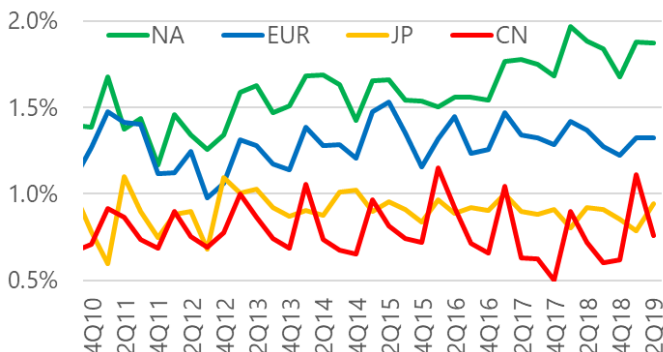
... even before the the effects of further policy rate cuts and monetary easing

Chart 3.4. Change in Net Interest Margin, 2Q2019 vs. Previous Periods (Percentage points)



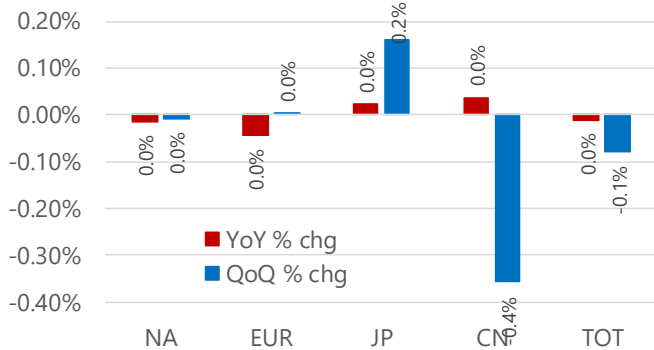
Non-interest income margins however are holding up well in most regions, particularly NA ...

Chart 3.5. Non-Interest Income to Average Assets, by Region (Percent)



... but appear to be on a declining trend in EUR and were volatile this quarter for CN banks

Chart 3.5. Change in Non-Interest Income to Average Assets, 2Q2019 vs. Previous Periods (Percentage points)



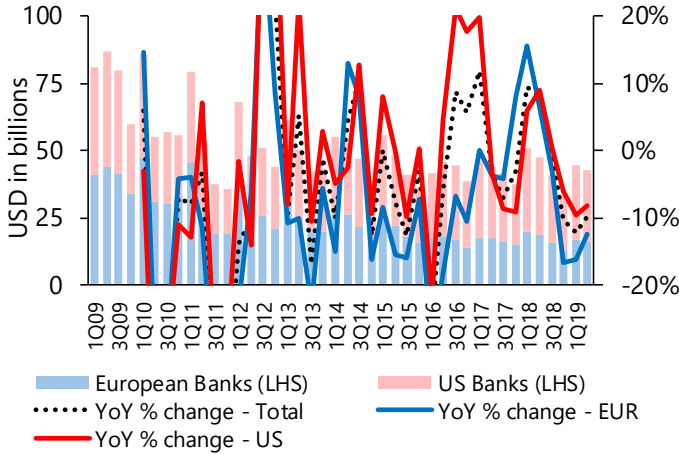
Sources: Bloomberg, SNL, IMF Staff analysis.

4. Market Revenues and Market Risk

Overall IB and markets revenues are down slightly over the past year

Chart 4.1. Investment Banking and Trading Revenues

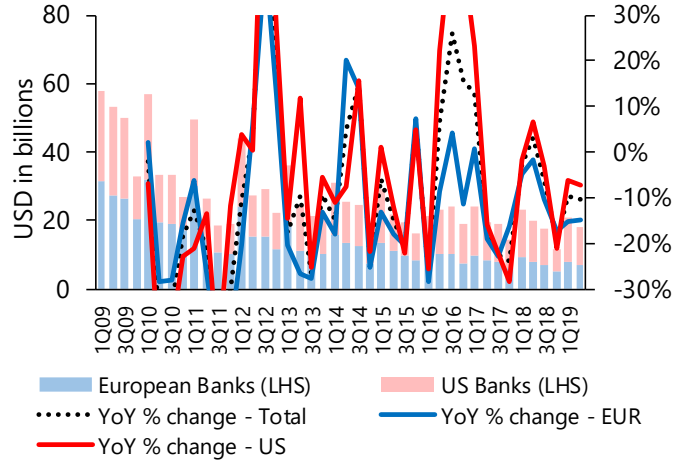
(USD in Millions, Percent)



Fixed income revenues continue their long-term contraction, with European peers still losing share

Chart 4.2. Trading Revenues – FICC

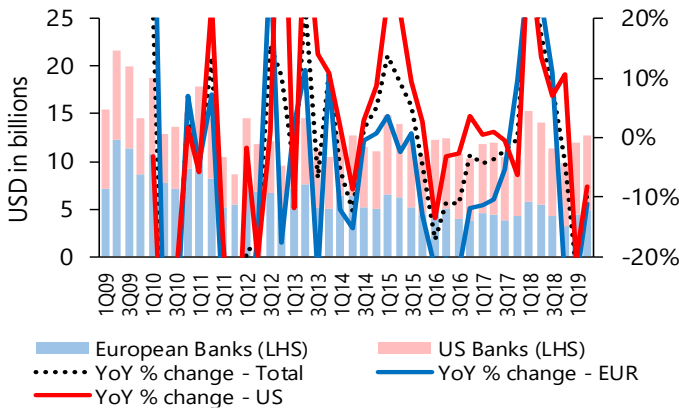
(USD in Millions, Percent)



Equities-related trading revenues rebounded but remain down year-on-year

Chart 4.3. Trading Revenues – Equities

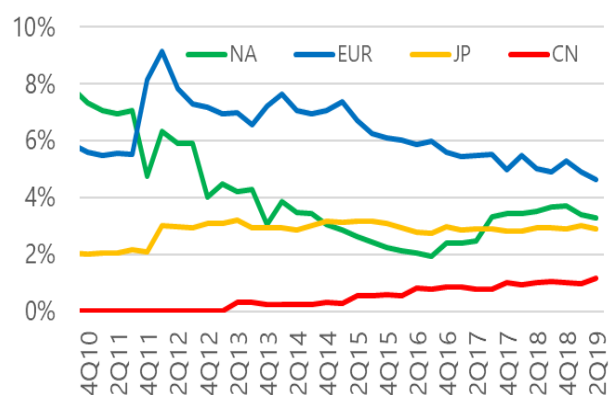
(USD in Millions, Percent)



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

Chart 4.4. Market RWA / Total RWA

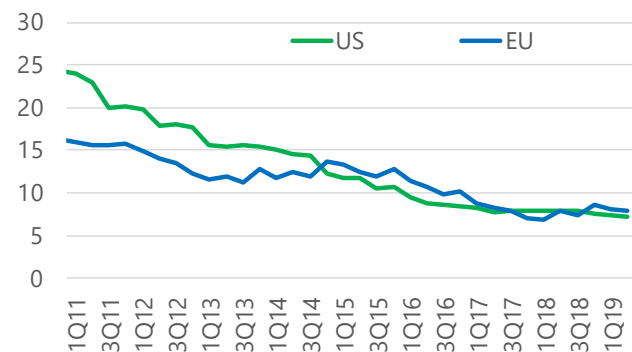
(Percent)



... while derivatives exposures have stabilized ...

Chart 4.5. Notional Derivatives / Total Assets

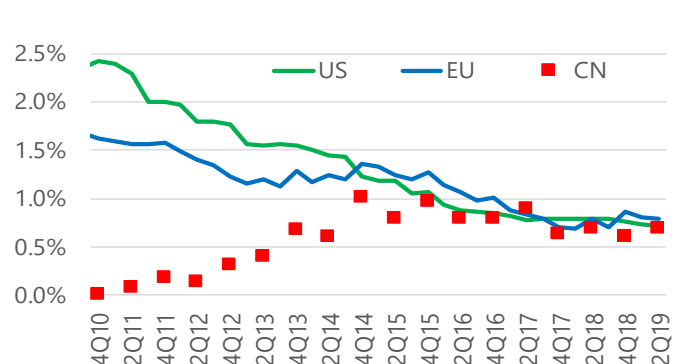
(Times)



... along with banks' holdings of hard-to-value positions

Chart 4.6. Level 3 Assets / Total Assets

(Percent)



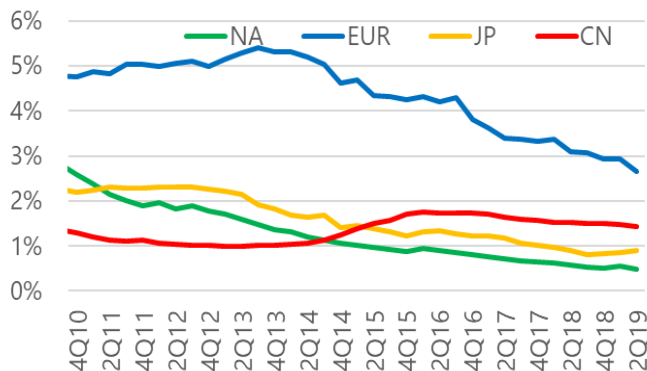
Sources: Various brokerage analysts, and IMF Staff analysis.

Note: FICC = Fixed income, currencies and commodities. RWA = Risk-weighted assets

5. Asset Quality and Credit Costs

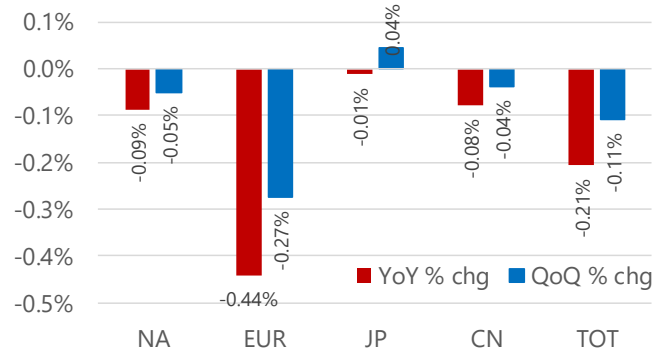
GSIBs' gross NPL ratios continued to decline ...

Chart 5.1. Gross NPL Ratio
(Percent)



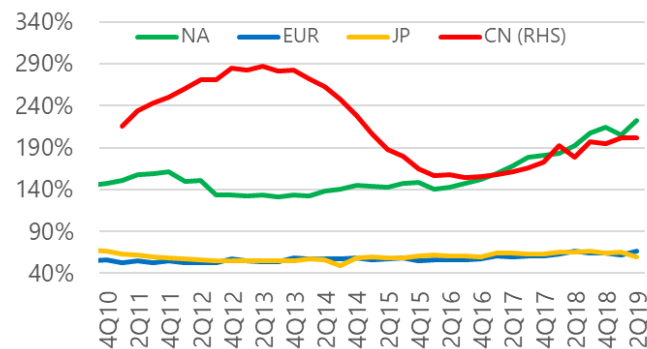
... particularly in EUR, driven by large disposals

Chart 5.2. Change in Gross NPL Ratio, 2Q2019 vs. Previous Periods
(Percentage points)



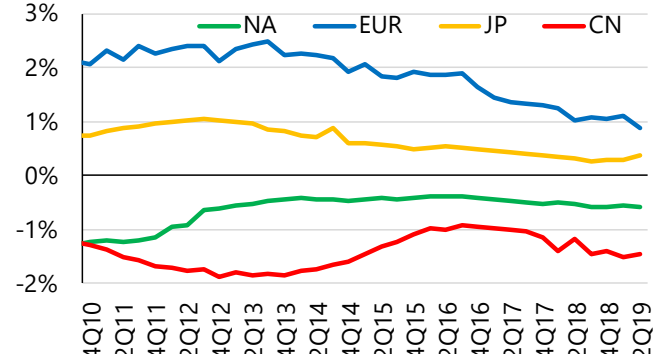
Reserves coverage improved, especially in NA

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



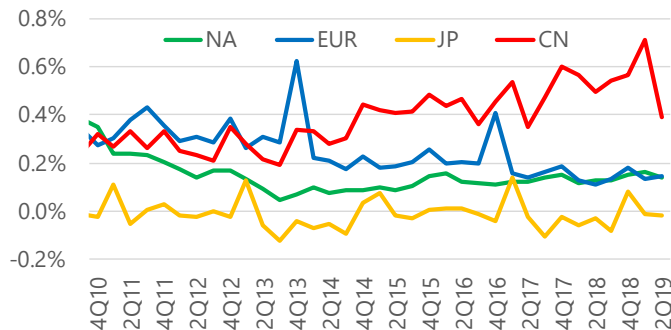
Net NPL ratios are comfortable in most regions outside EUR

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



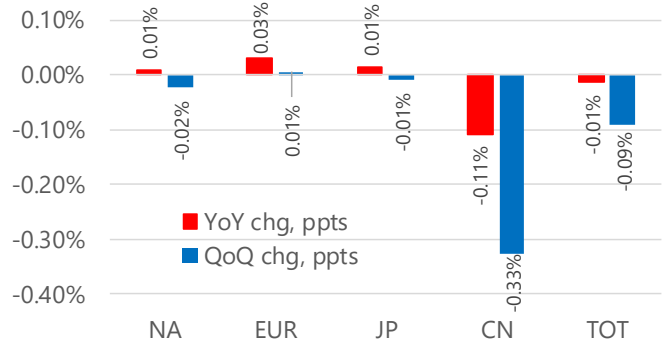
Sharply lower provisions in China propped up reported earnings; JP bank provisions are also extremely low

Chart 5.5. Provision Expense / Loans
(Percent)



EUR G-SIBs took little or no hit to provisions on large NPL disposals

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

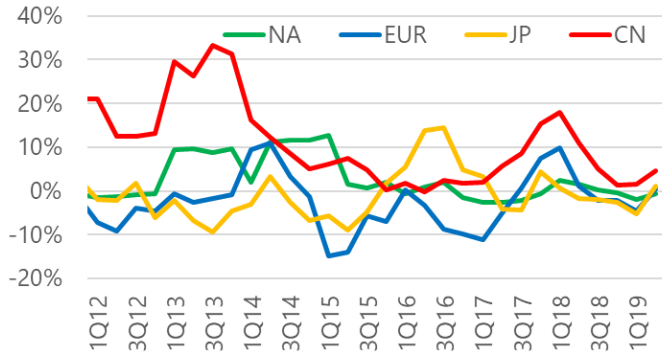


Sources: Bloomberg, SNL, IMF staff analysis.

6. Balance Sheet Growth, Capital and Liquidity

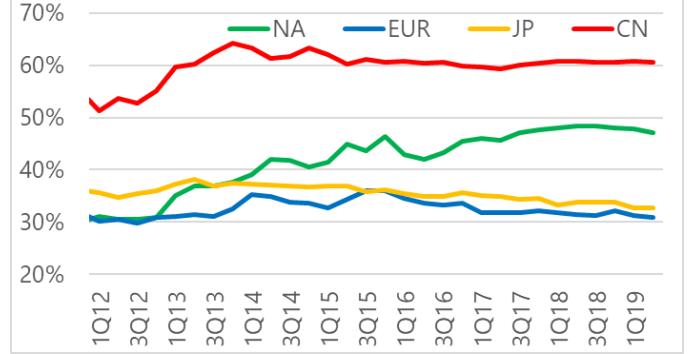
Risk-weighted asset growth stabilized across all regions

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



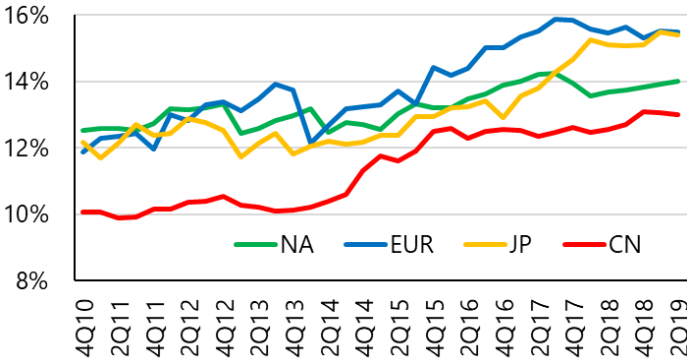
RWA density continues to fall, suggesting de-risking and capital conservation

Chart 6.2. RWA Density (Risk-Weighted Assets/Total Assets)
(Percent)



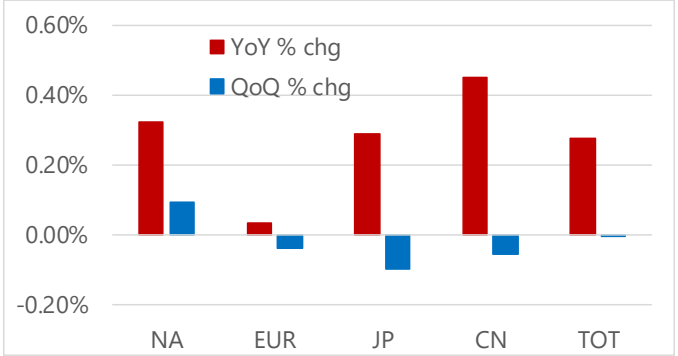
The rise in Tier 1 ratios has tailed off ...

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



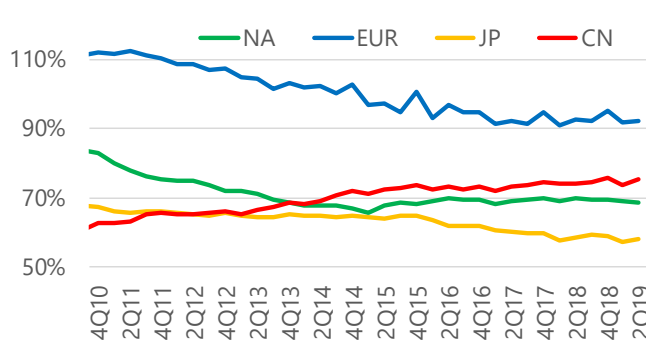
... and even dipped slightly over the past quarter

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



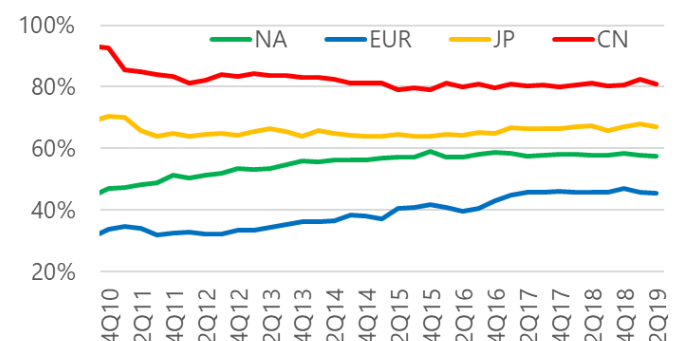
Loan-deposit ratios have remained stable ...

Chart 6.5. Loan-Deposit Ratio
(Percent)



... but the availability of deposit funding differs sharply across regions

Chart 6.6. Deposits / Total Liabilities
(Percent)



Sources: Bloomberg, SNL, staff analysis.

Note: Total shareholder payout includes ordinary dividends, special dividends, and share buybacks.