



# G-SIB MONITOR

MONETARY AND CAPITAL MARKETS DEPARTMENT

June 2, 2021

## Highlights:

- *G-SIB valuations have continued to rally*
- *Capital ratios declined across all regions on capital distributions and continuing RWA growth*
- *Earnings have recovered to pre-Covid levels in the US, but not in other regions...*
- *... on lower provisions and improved non-interest income*
- *The steepening global yield curve has yet to reverse declining interest margins*
- *Bad debts formation seems to have peaked, except in Japan*

**G-SIB valuations have continued to rally** (Page 2). G-SIB equities have risen on average by 10% in Q1, twice the MSCI World index, led by US, European and Japanese G-SIBs. Above-consensus 2021:Q1 earnings, macro recovery, the steepening of global yield curves and authorities' approvals for capital distributions drove improved profitability.

**Capital ratios fell across all regions on capital distributions and continuing RWA growth.** (2.1 to 2.6) CET1 ratios dropped around 10 bps across all regions, as the first capital distribution since the pandemic and continued RWA growth outweighed earnings accretion. Provision write-backs continue to support US and European G-SIBs', while reserve build continued in Japan and China, partly driven by different loss recognition practices. (2.1 to 2.4) RWA increased in all regions, in line with loan growth. (2.5) Simple leverage ratios edged lower in Q1 but remain well above minimum requirements. (2.6)

**Underlying earnings recovered to pre-Covid levels in the US, but have stalled in other regions.** More than 60% of G-SIBs with available analysts' earnings forecasts delivered Q1 pre-tax earnings more than 20% above expectations. (3.1) Nearly all reported provisions more than 20% below consensus. (3.1) Operating RoE jumped 6 ppts to 20.4% in the US, the highest since at least 2005, bringing the 4-quarter average to 14.2%, but recovery has stalled in other regions. (3.2, 3.3)

**The earnings recovery came through improved provisions and fee income; interest income has yet to benefit from steeper yield curves.** Operating RoA improved in the US and Europe, supported by the rebound in non-interest income and continuing unwinding of provisions. In contrast, in Japan, continuing reserve build and less robust non-interest income weighed on profitability. Chinese G-SIBs' revenues remain volatile, but overall profitability remains relatively high. (3.4) Despite the steepening of the global yield curve, NIM continues to compress and remains a drag on profitability (3.5), with non-interest income driving most of the recovery. (3.6)

**Capital markets rebounded on resurgent trading revenues and strong primary market volumes.** Activity levels improved across asset classes and regions. (4.1, 4.2) Market risks increased again, led by US G-SIBs (4.3). Earnings tail risk, as measured by average Value-at-Risk, has fallen from its recent peak but remains above the pre-pandemic levels; risk varies sharply across individual G-SIBs (4.4).

**Bad debt formation seems to have peaked in most regions except Japan.** US G-SIBs' reserves coverage improved despite large provision write-backs as gross NPLs fell more. Japanese and Chinese G-SIBs raised provisions for the first time since the pandemic, probably reflecting seasonality and different loss recognition practices (5.1, 5.2) Reserve coverage remains high in the US and China and stable in other regions. (5.3) Estimated new NPL formation has peaked, except in Japan (5.4), where gross NPLs rose slightly but remain low. (5.5). These reported credit risk indicators reflect borrower support policies but perhaps deferred recognition of credit deterioration. Nonetheless, a longer perspective highlights the very significant improvements over the past decade in bank asset quality. (5.6)

## Share Price Performance and Valuations

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

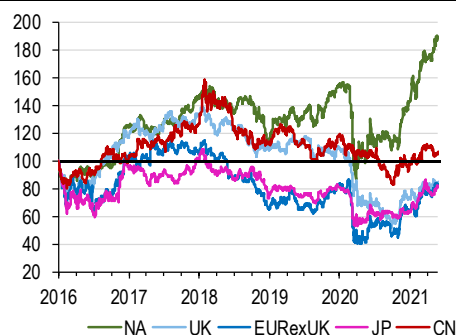


Chart 2. Valuation Trajectory (Price / book)

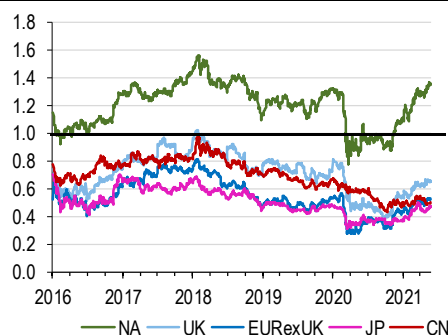
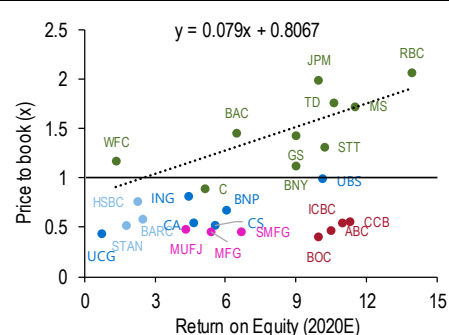


Chart 3. Price to Book vs 2020 ROE



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	363	1.5	-0.4	4.6	18.4	39.9	47	0.4	25.9	10.2	1.7
BNY	Bank of New York Mellon	46	1.1	0.0	4.4	19.2	22.7	42	0.6	24.7	9.4	2.4
C	Citigroup	163	0.9	-0.1	10.5	13.2	27.7	53	0.5	27.3	10.1	2.6
GS	Goldman Sachs	132	1.4	0.5	6.8	12.8	41.1	57	0.4	25.4	10.9	1.3
JPM	JP Morgan	497	2.0	-0.1	6.8	9.1	29.3	46	0.4	23.1	9.9	2.2
MS	Morgan Stanley	169	1.7	0.7	10.2	14.9	32.7	52	0.3	27.1	10.8	1.5
STT	State Street	30	1.3	0.0	3.6	13.3	19.5	27	0.8	26.9	10.4	2.4
WFC	Wells Fargo	193	1.2	-0.1	3.7	26.0	54.8	52	0.4	29.9	10.8	0.9
TD	Toronto Dominion	131	1.8	-0.2	2.8	11.7	20.8	30	0.1	14.1		3.6
RBC	Royal Bank of Canada	147	2.1	-1.1	5.9	13.2	18.8	54	0.0	13.9	9.5	3.5
North America		1167	1.5	-0.1	6.3	15.0	33.3	48	0.4	24.2	9.4	2.1
BARC	Barclays	44	0.6	-0.3	4.3	13.5	24.8	57	0.3	29.2	10.8	0.5
HSBC	HSBC Group	132	0.8	1.1	0.6	8.4	20.2	45	0.3	21.6	8.6	0.0
STAN	Standard Chartered	23	0.5	0.2	-2.3	8.0	9.0	53	0.5	24.5	9.3	1.3
United Kingdom		155	0.7	0.9	0.0	8.3	17.8		0.4	22.2	8.8	1.3
BNP	BNP Paribas	85	0.7	-1.1	4.6	13.7	29.6	35	0.4	27.6	11.0	2.0
CA	Credit Agricole	44	0.5	-0.8	-5.2	3.6	18.2	30	0.3	28.3	13.0	6.6
CS	Credit Suisse	28	0.5	-0.5	3.2	-26.4	-13.6	60	1.1	26.8	11.1	0.5
DB	Deutsche Bank	31	0.4	-2.2	4.0	15.7	35.2	46	0.3	33.8	7.1	0.0
ING	ING Group	54	0.8	-0.7	6.7	23.0	48.4	43	0.4	28.5	11.0	3.4
SAN	Banco Santander	73	0.7	-0.8	6.5	18.3	36.1	37	0.4	30.5	11.2	0.0
SG	Societe Generale	27	0.4	-0.2	10.7	26.1	53.9	37	0.6	31.3	12.0	2.1
UBS	UBS Group	63	1.0	-0.7	4.7	2.5	18.5	45	0.5	23.0	10.1	1.2
UCG	Unicredit Group	29	0.4	0.1	22.6	18.7	37.3	68	0.5	34.1	12.6	1.1
Continental Europe		433	0.6	-0.8	5.4	12.2	30.6	41	0.5	29.4	11.1	2.8
MUFJ	Mitsubishi UFJ Financial Group	77	0.5	0.3	7.6	10.6	36.3	31	0.2		8.5	4.3
MFG	Mizuho Financial Group	39	0.5	0.4	9.5	6.8	28.5	27	0.3		8.4	4.5
SMFG	Sumitomo Mitsui Financial Group	50	0.5	0.3	4.2	4.5	24.2	27	0.3		9.9	5.0
Japan		166	0.5	0.3	7.1	7.8	30.7	29	0.3		8.9	4.6
ABC	Agricultural Bank of China	176	0.5	0.0	4.3	12.5	10.9		0.1	21.7	15.4	7.2
BOC	Bank of China	142	0.4	-1.0	-5.8	7.8	9.8	48	0.1	16.6	14.5	8.2
CCB	China Construction Bank	208	0.6	-0.3	3.7	3.9	8.3		0.2	20.3	15.4	6.2
ICBC	Industrial & Comm Bank of China	278	0.5	0.0	0.8	1.2	1.4	48	0.1	20.4	14.9	6.4
China		803	0.5	-0.6	0.9	6.0	7.2		0.1	19.9	15.1	6.9
Total		2724	0.7	-0.4	3.8	9.5	22.0		0.3	24.1	11.7	4.3

Red Highlights?

< 1.0

< 0.0

< 0.0

< 0.0

< 0.0

< 0.0

Highest

Highest

Highest

Highest

Lowest

Green Highlights?

Highest

> 0.0

> 0.0

> 0.0

> 0.0

> 0.0

> 0.0

Lowest

Lowest

Lowest

Lowest

Highest

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

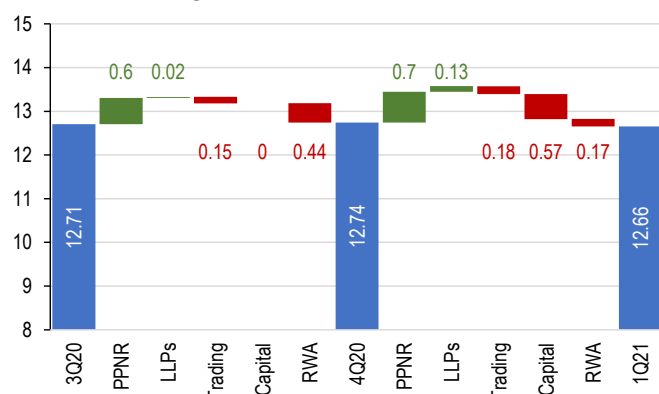
Source: Bloomberg and IMF Staff Analysis.

Note: Pricing is as of May 28, 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.

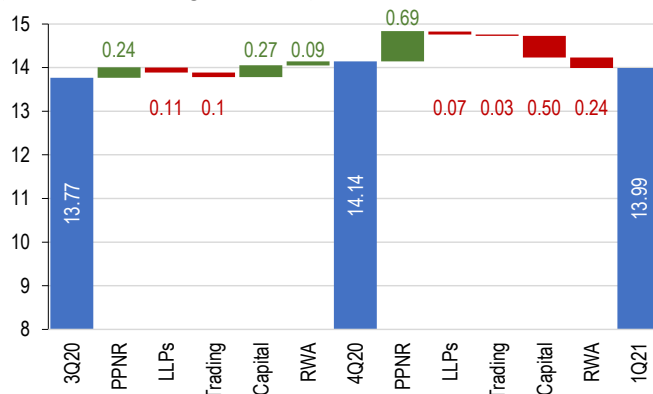
## Common Equity Tier 1 Capital: Progression and Position against Requirements

*G-SIBs' CET1 ratios fell across all regions on capital distribution and continuing RWA growth.*

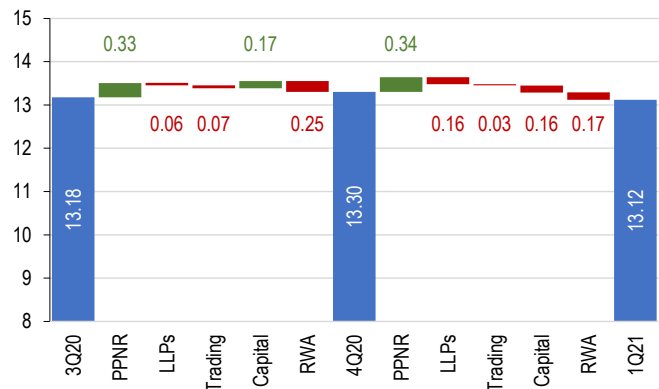
**Chart 2.1. CET1 Progression: US**  
(Percent of risk-weighted assets)



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



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

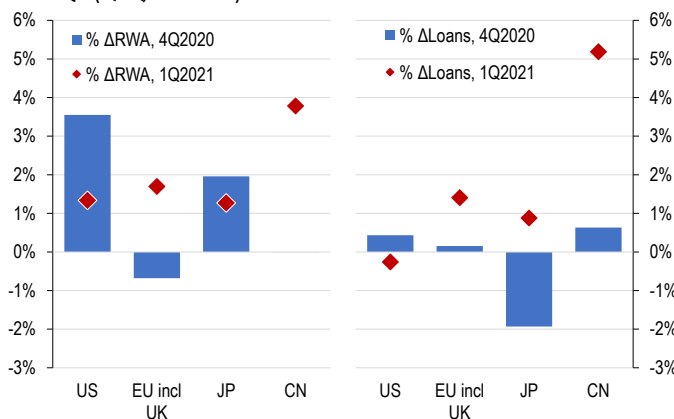


**Chart 2.4. CET1 Progression: China**  
(Percent of risk-weighted assets)



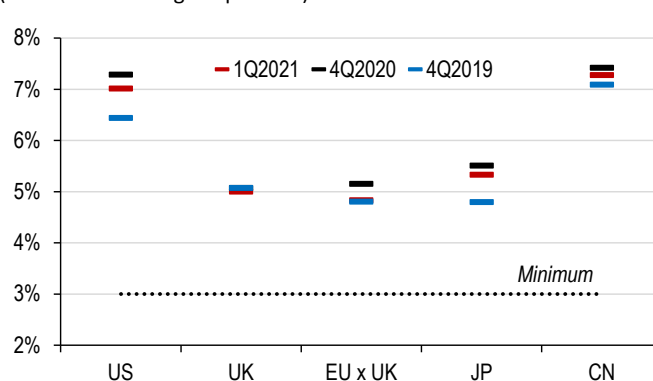
*Loan and RWA growth accelerated in most region.*

**Chart 2.5. Sequential Growth of Loans and RWAs, 2020:Q4 and 2021:Q3 (QoQ, Percent)**



*In most regions, average ratios fell quarter-on-quarter but remain above end-2019 and regulatory minima.*

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



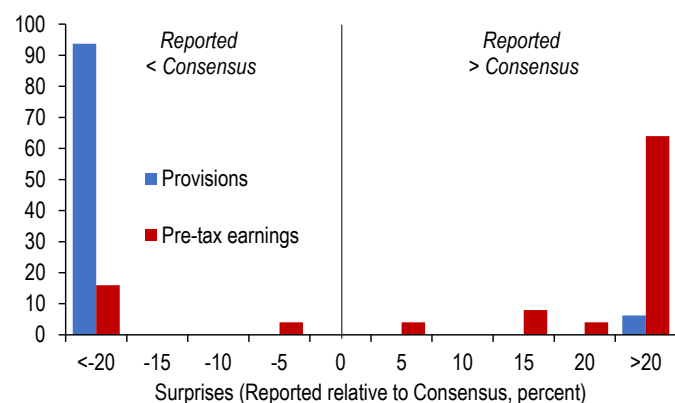
Sources: Bank financial statements, SNL, Bloomberg, Basel Committee, national supervisors, and IMF Staff.

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

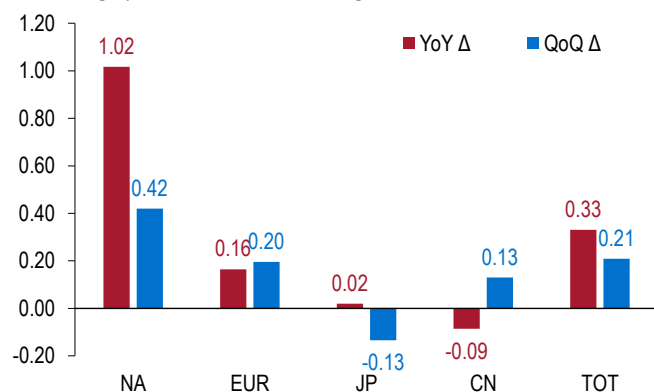
**Most G-SIBs sharply outperformed Q4 earnings forecasts on lower than anticipated provisions.**

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



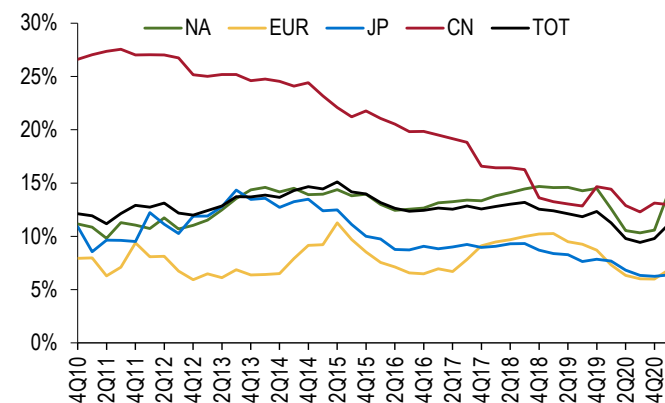
**... in line with underlying RoA.**

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



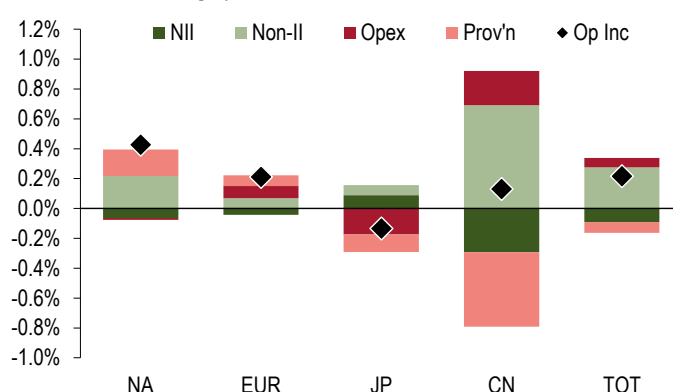
**Underlying RoE has recovered to pre-Covid levels in NA but more slowly in other regions ...**

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



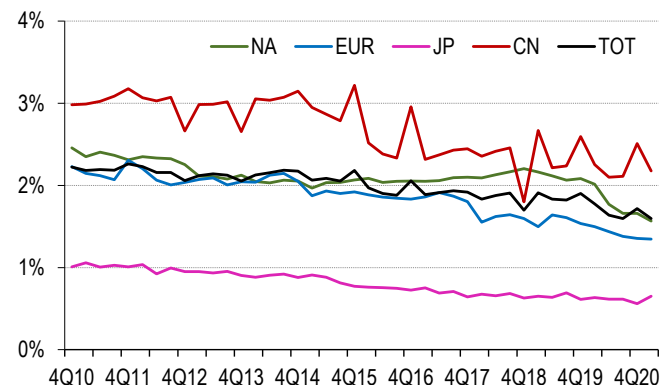
**Non-interest income has powered revenues, but net interest income remains a drag.**

**Chart 3.4. Decomposition of Change in Operating ROA, 2021:Q1 vs. 2020:Q4** (Percentage points)



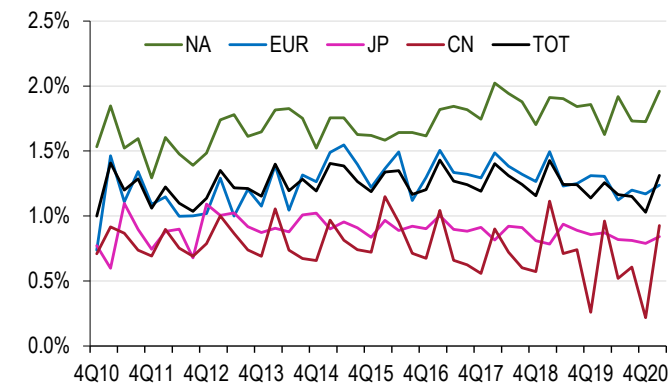
**The transmission of steeper yield curve into NIM has yet to materialize ...**

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



**... and recovery of non-interest income, while impressive, appears to be partly cyclical.**

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



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

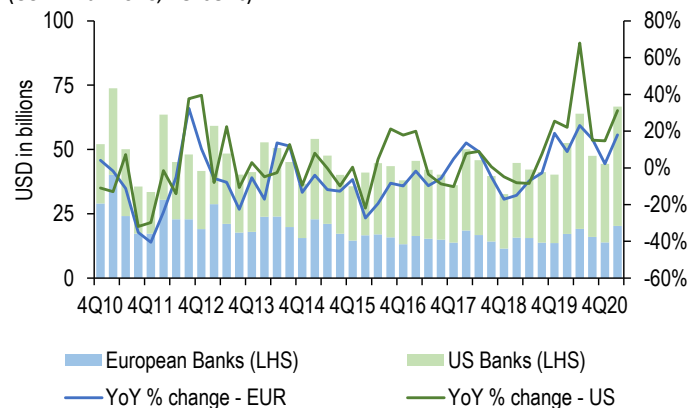
Note: Panel 1 is based on consensus expectations as of March 31, 2021. Panels 2 to 4 shows 'underlying' operating performance which excludes tax, non-operating items and misconduct charges. In panels 4, NII = Net interest income; Non-II = Non-interest income; Opex = Operating expense; Prov'n = Provision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

## Market Revenues and Market Risk

### Markets-related revenues rebounded strongly in Q1 ...

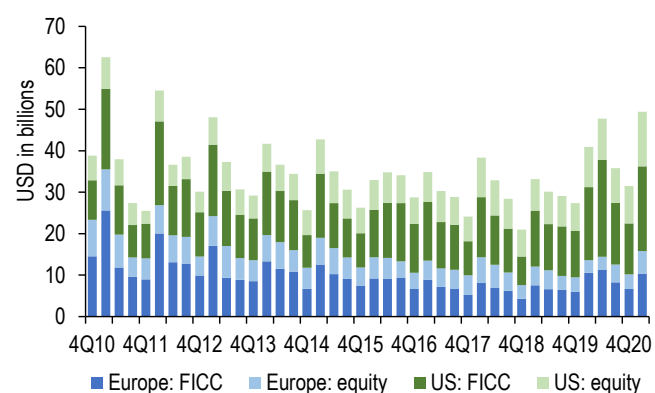
**Chart 4.1. Investment Banking and Trading Revenues**

(USD in billions, Percent)



### ... on resurgent trading revenues and fees.

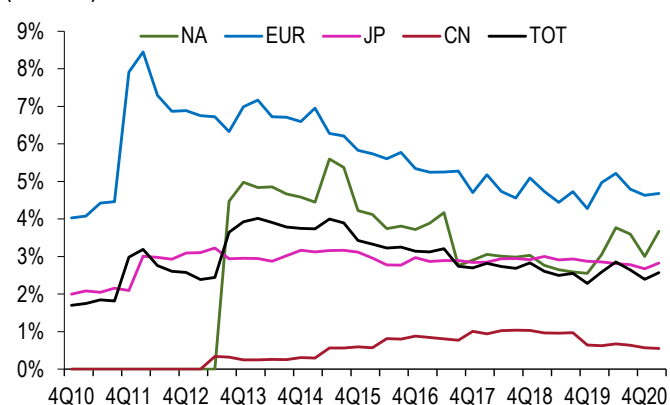
**Chart 4.2. Trading Revenues, by FICC and Equities (USD in billions)**



### Market RWA increased slightly as a share of total RWA, driven by US G-SIBs.

**Chart 4.3. Market RWA / Total RWA**

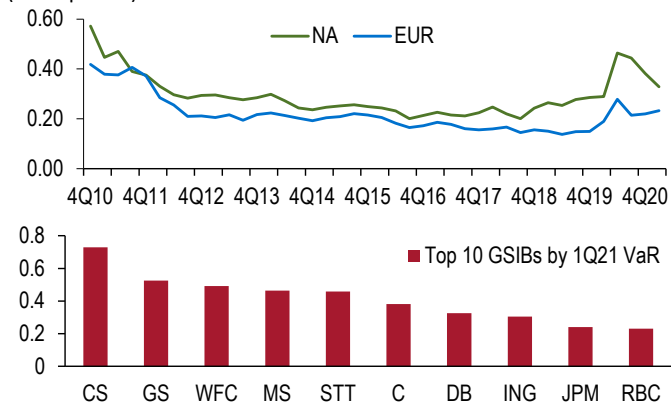
(Percent)



### Value-at-Risk has fallen from the recent peak in Q2, with large dispersions across individual G-SIBs.

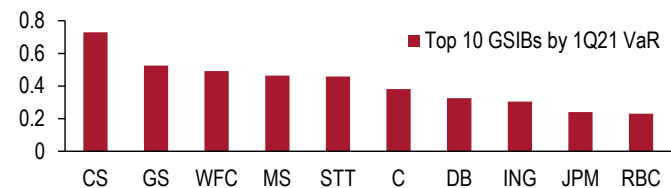
**Chart 4.4. Average Value-at-Risk / Total Assets**

(Basis points)



Sources: Various brokerage analysts, and IMF Staff analysis.

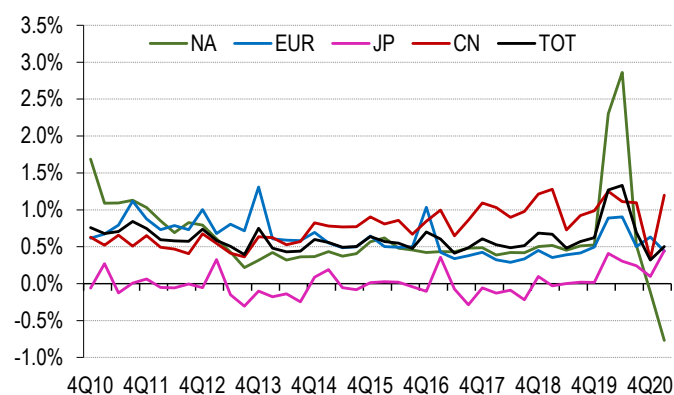
Note: FICC = Fixed income, currencies and commodities. RWA = Risk-weighted assets. Value-at-risk represents a statistical estimate of the daily loss in a 95-percent worst-case outcome, including risks related to interest rates, equities, currencies, commodities and other exposures, offset by the diversification benefits of hedging across asset classes.



## Asset Quality and Credit Costs

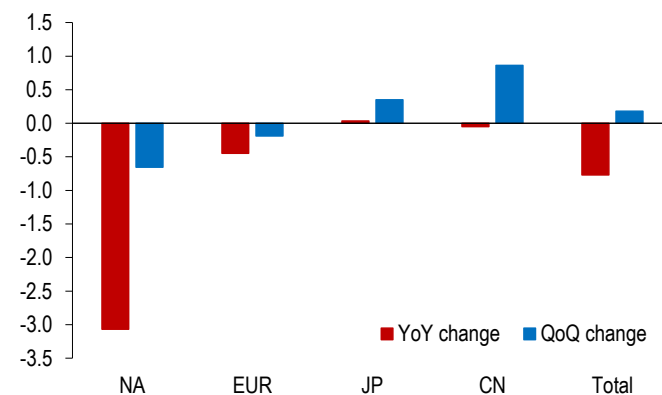
**US G-SIBs' provisions were negative in 1Q2021, driven by reversal of reserves ...**

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



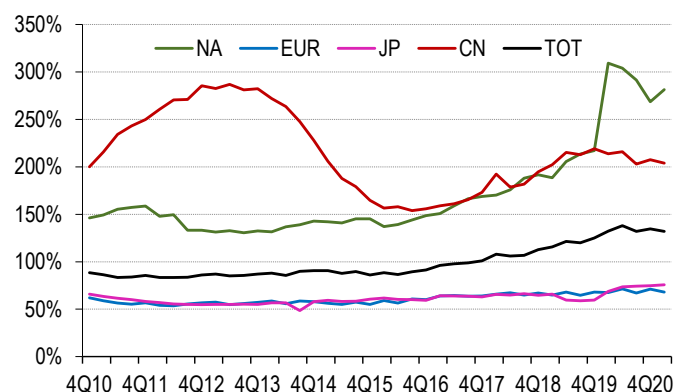
**... while China and Japan raised provisions for the first time since the pandemic**

**Chart 5.2. Change in Provision Expense / Loans**  
(Percentage Points)



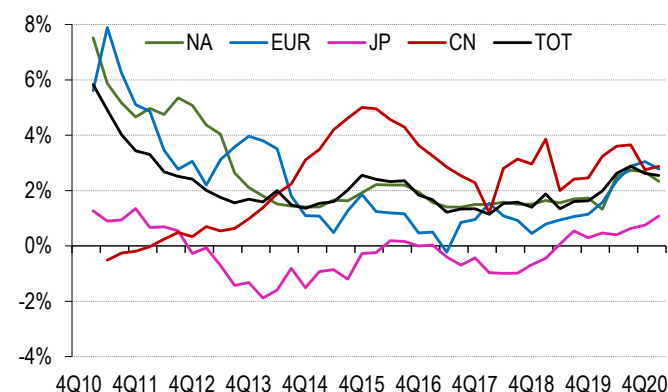
**In the US, plummeting gross NPLs drive reserves coverage up despite the absolute decline in loan loss reserves.**

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



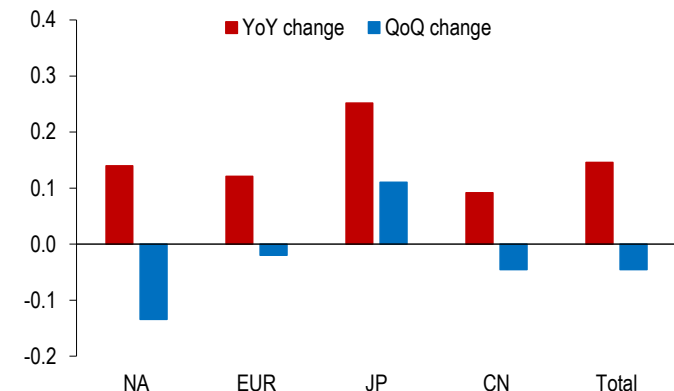
**New NPL formation have peaked in most regions except Japan ...**

**Chart 5.4. New NPL Formation / Average Loans (Annualized)**  
(Percent)



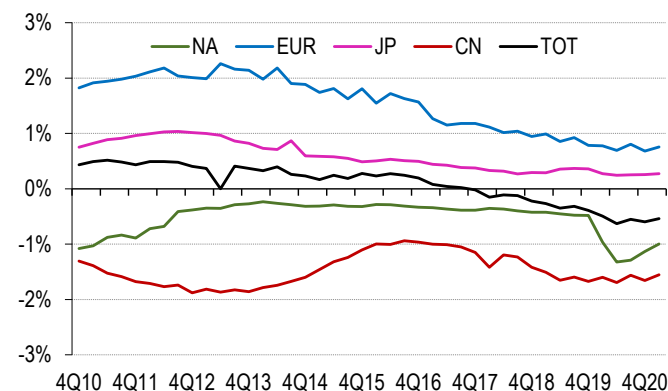
**... where gross NPL ratios continued to edge up, though from very low levels.**

**Chart 5.5. Change in Average Gross NPL Ratio**  
(Percentage points)



**Net NPL ratios remain at healthy levels.**

**Chart 5.6. 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:  $NPL_{EOP} = NPL_{BOP} + \text{New NPLs} - \text{Write-offs net of recoveries}$ , and  $LLR_{EOP} = LLR_{BOP} + \text{Provision charge} - \text{Write-offs net of recoveries}$ , 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.