



G-SIB Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

- *Global Systemically Important Banks' (G-SIBs) shares have performed poorly this year as forward earnings estimates have plateaued or declined since early 2018. Most, except US peers, trade below book value.*
- *Headline operating profitability (ROA) has leveled off in recent quarters, reflecting increased litigation expenses, while underlying profitability has continued to improve in a generally strong growth environment.*
- *Banks' capital positions have stabilized overall and slightly weakened in Europe on increased dividend payouts.*

Share price performance has been weak, and most banks remain at or below book value (Charts 1 to 3 and table). G-SIBs' share prices on average fell between 12 percent (China, Japan) and 18 percent (Continental Europe), with only North American G-SIBs relatively stable (down 2 percent) largely due to the strong performance of JPMorgan. Share prices rebounded over the past two years as rising future earnings and dividends were priced in, but forward earnings estimates have plateaued or declined since early 2018, reflecting lower growth prospects in parts of Europe and in some emerging markets, as well as bank specific challenges. US G-SIBs now trade at a 40 percent premium to book value; but peers in all other regions trade on average at meaningful discounts to book. Price-to-book multiples are reasonably well correlated with consensus expected 2019 return on equity – except in China, where the apparent discount relative to expected profitability may relate to potential asset quality concerns.

Headline profitability has been pulled down by litigation charges (Charts 4 to 9). All G-SIBs have met or exceeded consensus 2Q18 revenue expectations, while seven of the thirty under-performed on earnings. Reported operating return on assets (pre-tax, excluding impact of extraordinary items) has leveled off over the past two quarters. However, this includes the impact of increased litigation and penalty charges (for example, anti-money laundering, Wells Fargo charges for consumer abuses) to 14 basis points of average assets in 1H18, double the level of 1H17. Excluding those charges, operating return on assets has generally increased over each of the last two quarters across all regions.

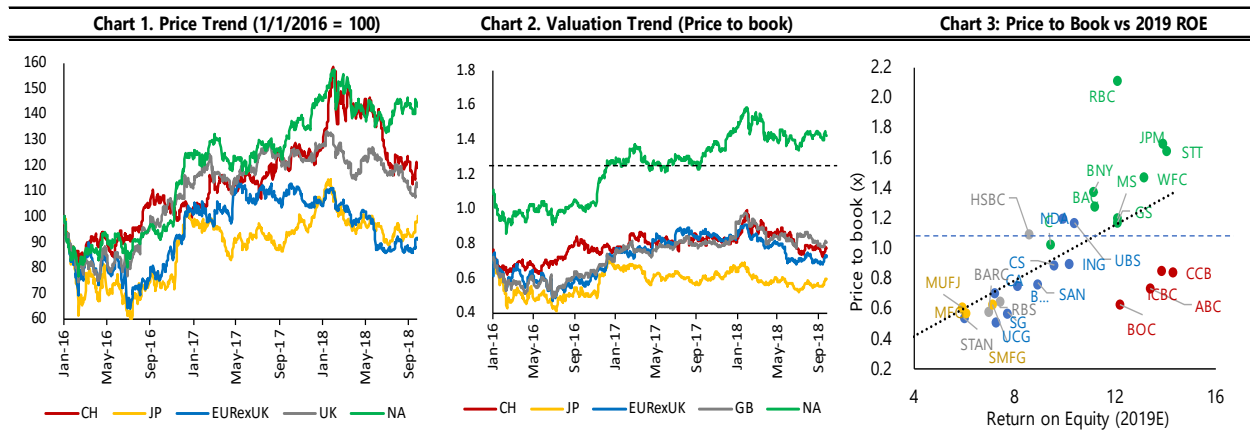
U.S. G-SIBs reported the strongest revenue performance; other regions are relatively flat (Charts 10 to 15). U.S. G-SIBs' revenues as a percent of assets rose nearly 50 basis points in 1Q18 and remained high in the second quarter. Revenues to assets were stable in Europe and fell in Asia. This potentially reflects the relative strength of economic activity across different regions. Net margins were flat to modestly positive in the US and Europe, but fell among Asian G-SIBs. Non-interest income was robust across all regions, particularly the U.S., on strong performance in both markets- and consumer-related fee income activities. Investment banking and trading revenues were very strong over the past two quarters, driven especially by strength in equities trading.

Asset quality continues to improve across all regions, as provision expenses declined in Asia but remained stable elsewhere (Charts 16 to 21). Results in recent quarters have continued the trajectory of declining gross NPL ratios across all regions, with particularly steep drops in Europe. Net NPL positions have also continued to improve in the US and Europe (declining in 1Q18, then stable in 1Q18); but Asian peers lowered reserve coverage somewhat in the second quarter, keeping net NPL ratios stable on the year. This, combined with a year-on-year increase in provision charges, suggests that Asian banks' net influx of NPLs rose in 2Q18. Provision levels remain moderate in other regions.

Capital positions have weakened slightly in recent quarters in Europe and improved in Asia (Charts 22 to 27). A deceleration of asset and risk-weighted asset growth has supported capital positions. However, this was counter-balanced by a large increase in dividend payouts, particularly in 2H17.

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.

Share Price Performance and Valuations Snapshot



Ticker	Bank Name	Market Cap (USD Bn)	Price to Book	% Price Change (1D)	% Price Change (1M)	% Price Change (3M)	% Price Change (YTD)	CDS	2yr Implied Default Prob	Implied Vol (90 D)	Implied Cost of Equity	Dividend Yield
JPM	JP Morgan	391	1.7	(0.2)	1.5	11	9	40	0.11	18	9.9	2.7
BAC	Bank of America	307	1.3	(0.1)	(0.6)	8	4	47	0.15	20	10.2	2.0
WFC	Wells Fargo	261	1.5	(0.0)	(7.5)	1	(11)	45	0.12	20	10.8	3.2
C	Citigroup	186	1.0	(0.1)	4.4	12	(1)	51	0.39	22	10.1	2.4
GS	Goldman Sachs	91	1.2	(0.3)	(1.2)	5	(9)	62	0.56	20	10.9	1.4
MS	Morgan Stanley	84	1.2	(0.3)	0.6	1	(8)	57	0.46	23	10.8	2.5
BNY	Bank of New York Mellon	52	1.4	(0.3)	(0.7)	(6)	(3)	45	0.15	20	9.4	2.1
STT	State Street	33	1.6	(0.2)	0.9	(9)	(11)	0.10	21	10.4	2.2	
RBC	Royal Bank of Canada	116	2.1	0.3	1.0	5	2	52	0.26	11	9.5	3.7
North America		1,522	1.4	(0.1)	(0.4)	6	(1)	48	0.23	20	10.3	2.5
HSBC	HSBC Group	177	1.1	(0.0)	(1.5)	(4)	(12)	67	0.40	17	8.6	5.6
BARC	Barclays	39	0.6	(0.5)	(4.6)	(8)	(14)	114	0.77	27	10.8	2.6
RBS	Royal Bank of Scotland	41	0.6	(0.9)	4.7	(0)	(8)	114	0.77	23	11.6	0.8
STAN	Standard Chartered	28	0.5	(0.4)	(1.8)	(8)	(19)	94	0.63	23	9.3	2.0
United Kingdom		285	0.8	(0.4)	(1.3)	(5)	(12)	91	0.59	21	9.8	3.5
BNP	BNP Paribas	80	0.8	0.2	5.2	3	(12)	42	1.26	19	11.0	5.5
DB	Deutsche Bank	25	0.3	(0.9)	5.3	11	(35)	123	1.51	31	7.1	1.1
CA	Credit Agricole	43	0.7	0.7	7.6	11	(7)	42	1.32	22	13.0	4.9
SG	Societe Generale	36	0.5	0.6	5.5	6	(12)	44	1.39	22	12.0	5.8
SAN	Banco Santander	85	0.8	(0.1)	2.9	(3)	(18)	60	0.79	25	11.2	4.9
UBS	UBS Group	64	1.2	0.7	3.5	6	(8)	57	0.37	19	10.1	4.1
UCG	Unicredit Group	38	0.6	2.6	8.6	0	(8)	145	1.17	34	12.6	2.2
ING	ING Group	53	0.9	1.1	(2.6)	(7)	(24)	70	0.72	21	11.0	5.8
CS	Credit Suisse	40	0.9	0.1	2.8	2	(11)	66	0.77	21	11.1	1.6
NDA	Nordea Bank	44	1.2	(0.1)	0.1	13	(3)	33	0.58	18	9.3	7.1
Continental Europe		510	0.7	0.4	4.5	5	(15)	67	1.09	23	10.8	4.3
MUFJ	Mitsubishi UFJ Financial Group	89	0.6	0.8	8.8	15	(12)	50	1.15		8.5	2.7
MFG	Mizuho Financial Group	46	0.6	0.4	4.9	9	(0)	52	1.42		8.4	3.7
SMFG	Sumitomo Mitsui Financial Group	58	0.6	3.0	8.1	9	(3)	53	1.11		9.9	3.6
Japan		193	0.6	1.3	7.5	12	(6)	52	1.22		8.9	3.3
ICBC	Industrial & Comm Bank of China	285	0.8	(1.7)	(1.6)	(5)	(10)	71	0.41	22	14.9	5.0
CCB	China Construction Bank	219	0.8	(1.7)	(1.9)	(7)	(6)		0.45	23	15.4	5.1
ABC	Agricultural Bank of China	194	0.7	(2.1)	1.9	3	4		0.49	22	15.4	5.8
BOC	Bank of China	149	0.6	(1.7)	(2.3)	(10)	(10)	72	0.71	21	14.5	6.0
China		847	0.8	(1.8)	(1.0)	(5)	(6)	71	0.50	22	15.1	5.4
Red Highlights?			< 1.0	< 0.0	< 0.0	< 0.0	< 0.0	Highest	Highest	Highest		Lowest
Green Highlights?			Highest	> 0.0	> 0.0	> 0.0	> 0.0	Lowest	Lowest	Lowest		Highest

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

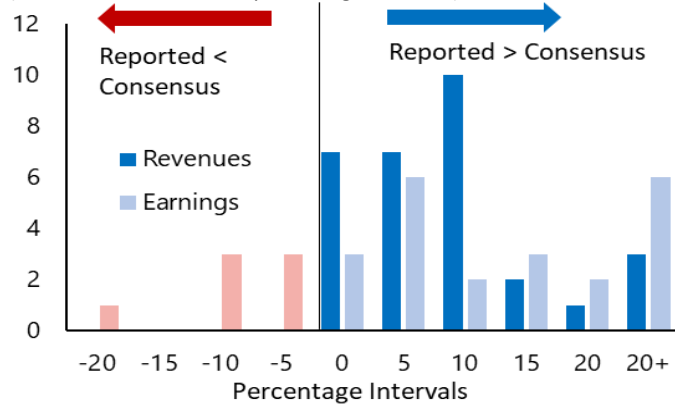
Note: Throughout this note, "EUR" includes all European banks, "EURxUK" designates continental European banks. "NA" includes US and Canadian banks. "AP" = Asia-Pacific, including Japanese and Chinese banks, which are in a few instances identified as "JP" and "CH", respectively. Source: Bloomberg and IMF Staff Analysis

Net Income Performance

Revenues have outperformed expectations, but net income performance has been more mixed

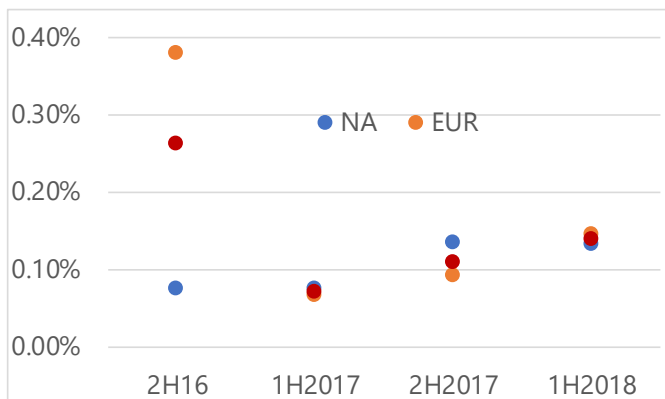
Chart 4. Revenues vs. consensus estimates

(Number of GSIBs within percentage intervals)



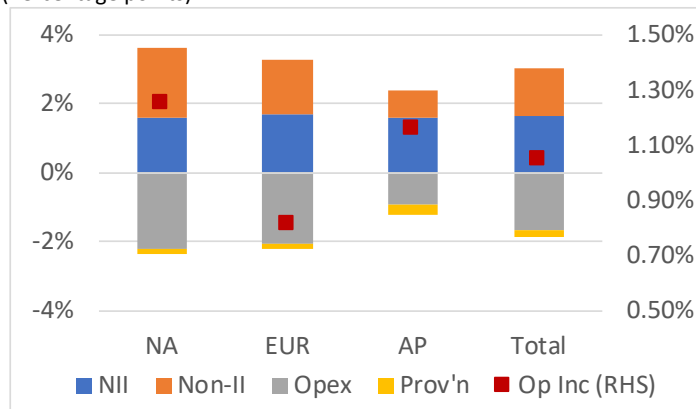
This partly reflects increased penalty and litigation charges relative to the low levels of 2017

Chart 6. Litigation and Penalty Charges (Percent of average assets)



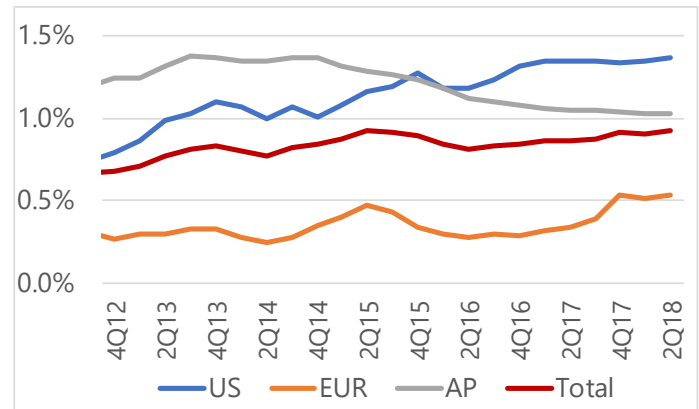
US GSIBs have generated relatively high revenues with ample non-interest income ...

Chart 8. Decomposition of Operating ROA, by Region, 1H2018
(Percentage points)



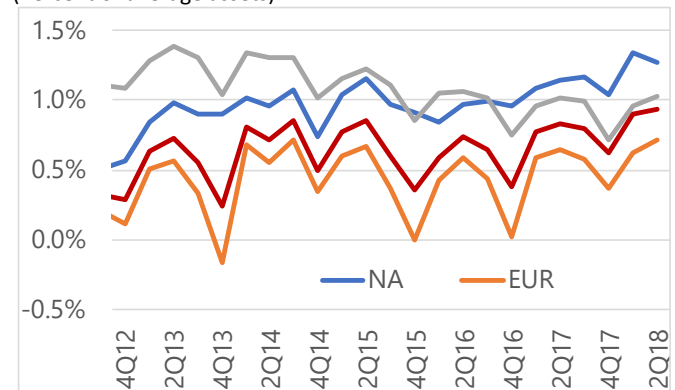
Operating ROAAs leveled off in recent quarters following an improvement in the US and Europe

Chart 5. Operating ROA, Pretax, GSIB Regional Average (Percent)



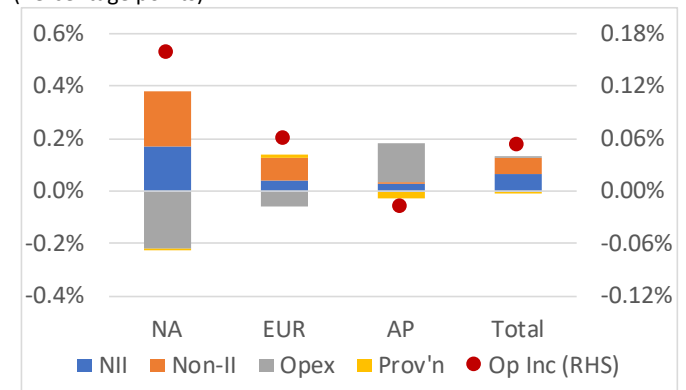
But net income, excluding litigation expenses, has generally risen

Chart 7. Estimated Operating ROAA, before Litigation Expense
(Percent of average assets)



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

Chart 9. Change in Operating ROA, 1H2018 vs. 1H2017, by Region
(Percentage points)

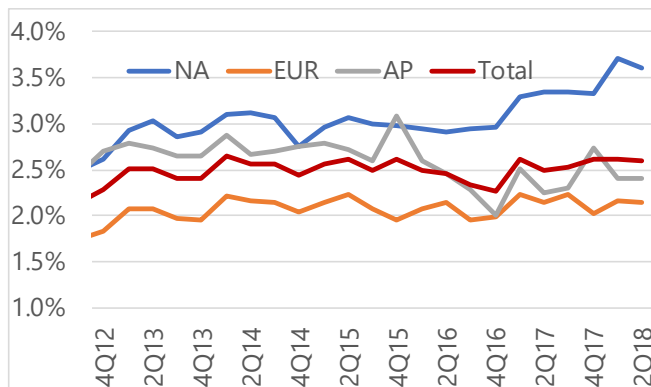


Note: All returns are shown on a pretax operating basis, stripping out the effect of extraordinary items. Operating profit = operating revenue less provisions and operating expense. It is before tax and excludes the effects of non-operating items. NII = Net interest income. Non-II = Non-interest income. 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.

Revenue Performance

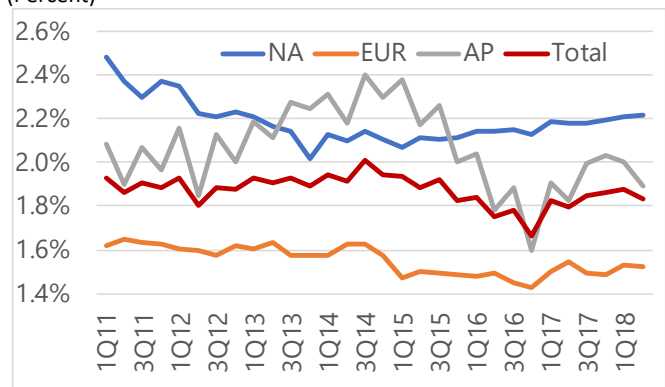
US GSIBs' revenue performance has improved sharply over the past two years ...

Chart 10. Revenues/Assets, 4Q2012 – 2Q2018, by Region (Percent)



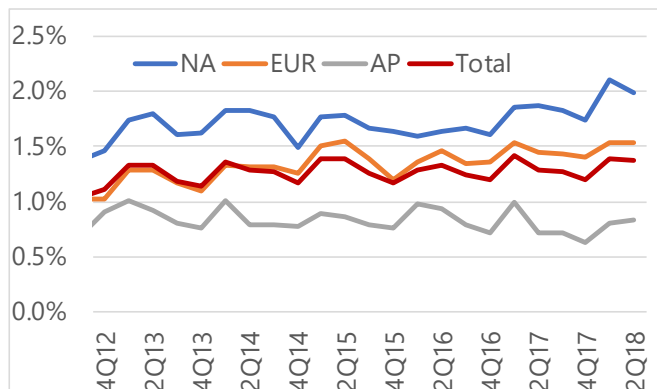
... as net interest margins have stabilized at relatively high levels ...

Chart 11. Net Interest Margin, 1Q2011 – 2Q2018, by Region (Percent)



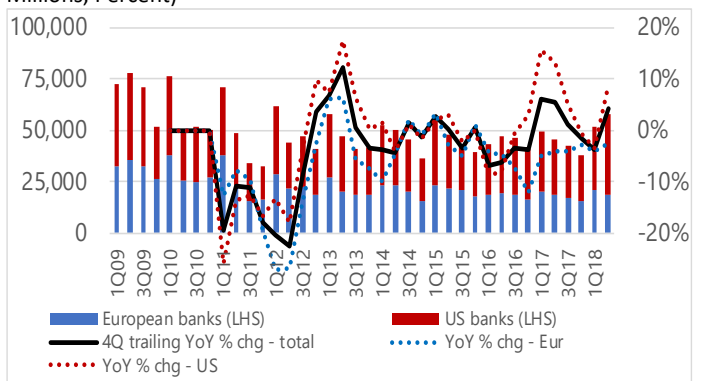
... and non-interest income has rebounded.

Chart 12. Non-Interest Income to Average Assets (Percent)



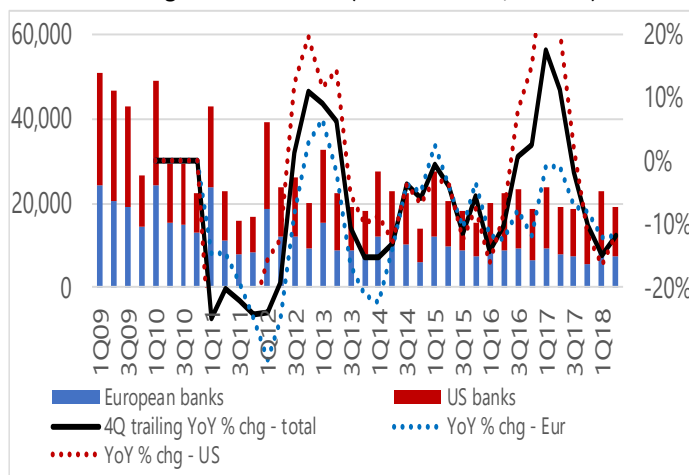
Investment banking and trading revenues of US GSIBs have bounced over the past few quarters.

Chart 13. Investment Banking and Trading Revenues (USD in Millions, Percent)



Fixed income revenues remain subdued.

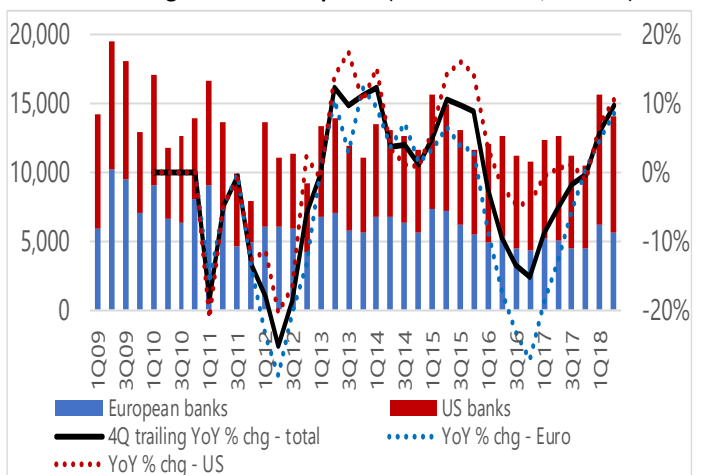
Chart 14. Trading Revenues – FICC (USD in Millions, Percent)



Note: FICC = Fixed income, currencies and commodities.
Sources: Bloomberg, staff analysis.

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

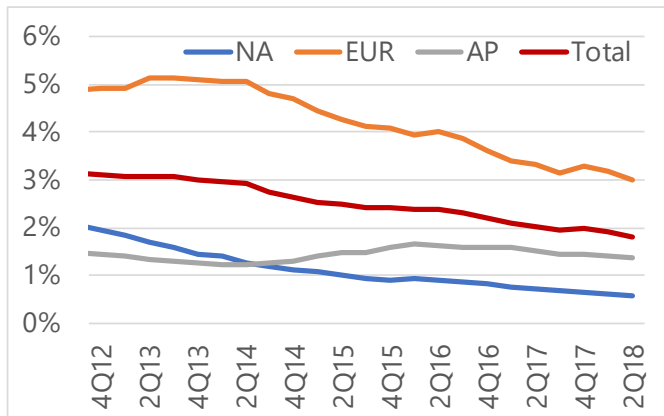
Chart 15. Trading Revenues – Equities (USD in Millions, Percent)



Asset Quality and Credit Costs

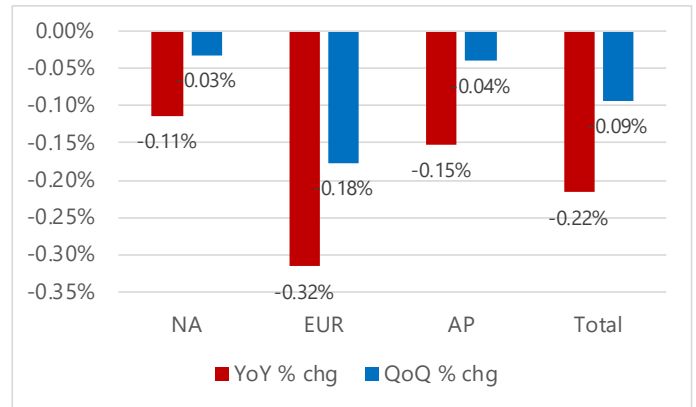
GSIBs' gross NPL ratios continue to decline ...

Chart 16. Gross NPL Ratio



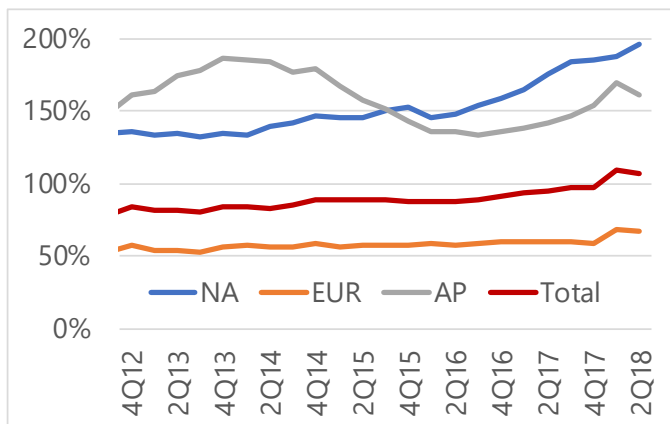
... falling particularly sharply in Europe

Chart 17. Change in Gross NPL Ratios (Percentage points)



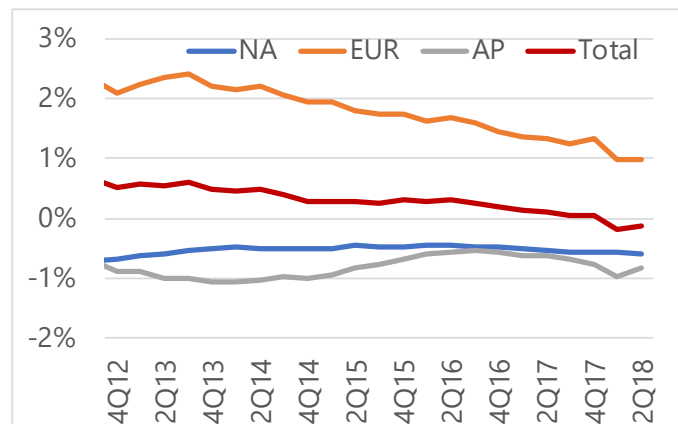
Reserves coverage has improved steadily in the US, and recently in across other regions

Chart 18. Loan-Loss Reserves / NPLs (Percent)



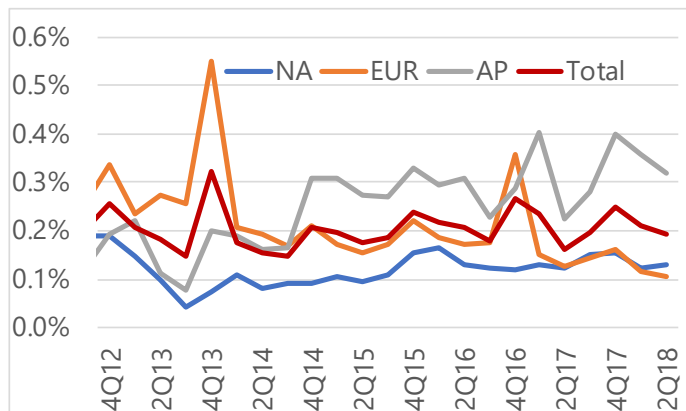
Net NPL ratios have improved steadily among European GSIBs.

Chart 19. Net NPL Ratio (NPLs, net of LLRs, as Percent of Loans)



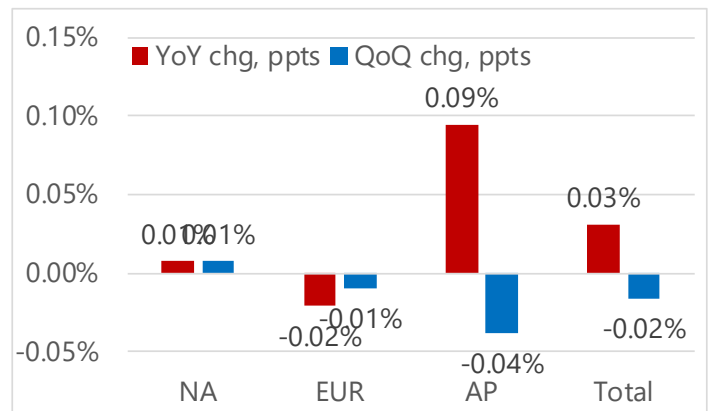
Provision charges are volatile; recent quarters have seen improvement in Europe ...

Chart 20. Provision Expense / Loans (Percent)



... but a spike in Asia.

Chart 21. Change in Provision Expense / Loans (Percentage Points)

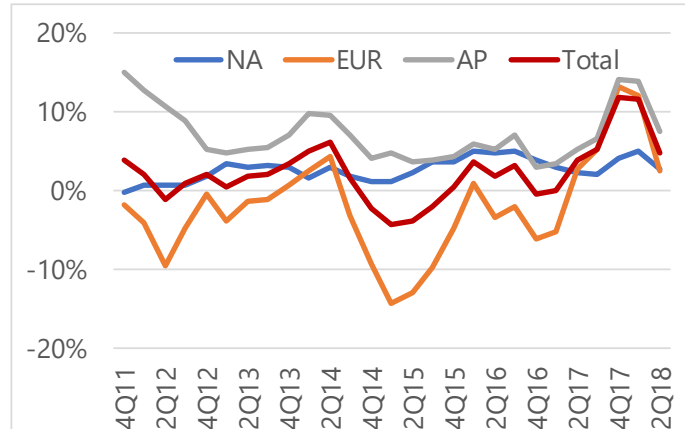


Sources: Bloomberg, and IMF staff analysis.

Balance Sheet Growth and Capital Positions

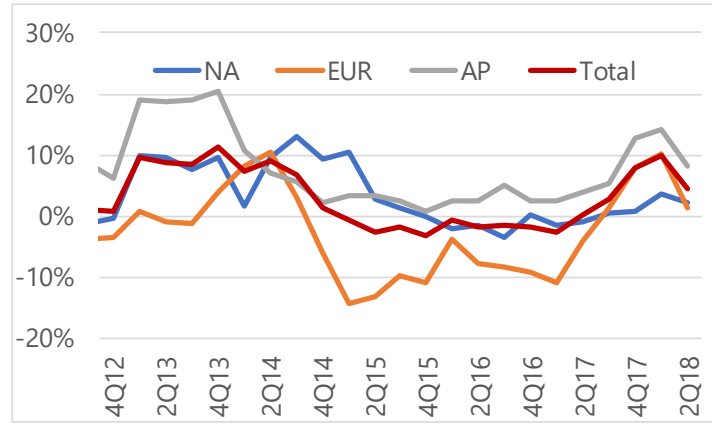
Asset growth has decelerated in recent quarters ...

Chart 22. Asset Growth, by Region (Year-on-year change, percent)



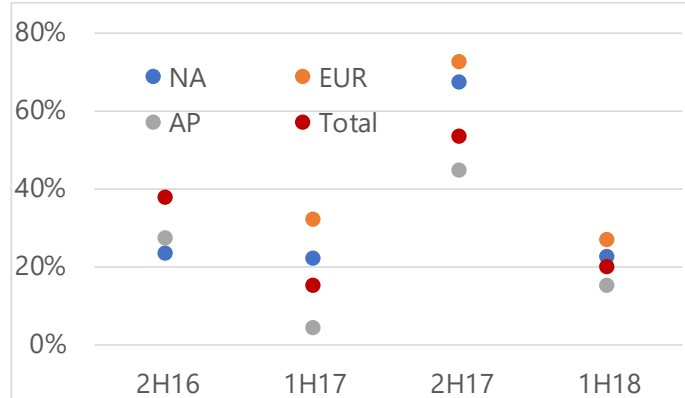
... driving a similar decline in risk-weighted assets.

Chart 23. YoY change in Risk-Weighted Assets (Percent)



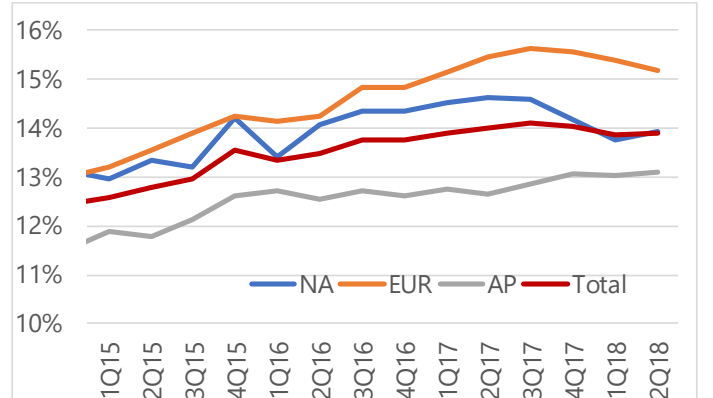
Dividend payouts have increased

Chart 24. Average Dividend Payout Ratio, Semi-Annual (Percent)



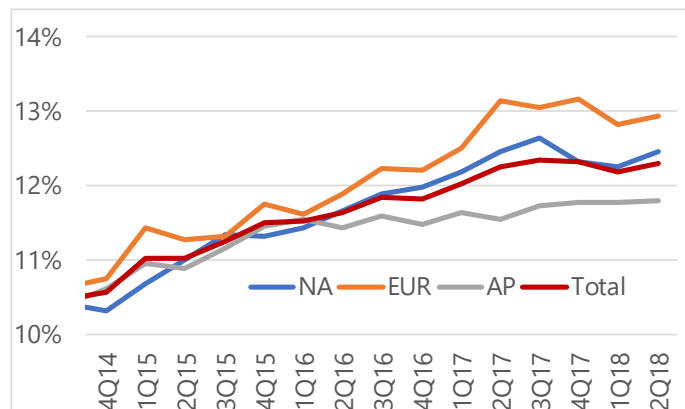
As a result, Tier 1 ratios have recently declined in the US and Europe

Chart 25. Tier 1 Ratio, Average by Region (Percent)



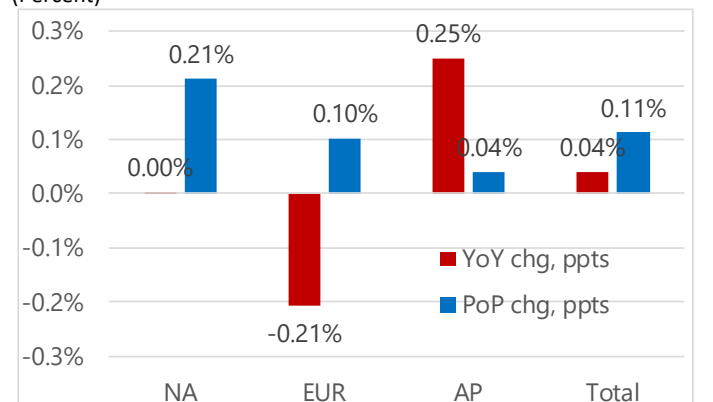
Common equity Tier 1 ratios strengthened in recent years ...

Chart 26. Common Equity Tier 1 Ratio, Average by Region (Percent)



... but have recently declined slightly in Europe

Chart 27. Change in Cash EconTier 1 Ratio, Average by Region (Percent)



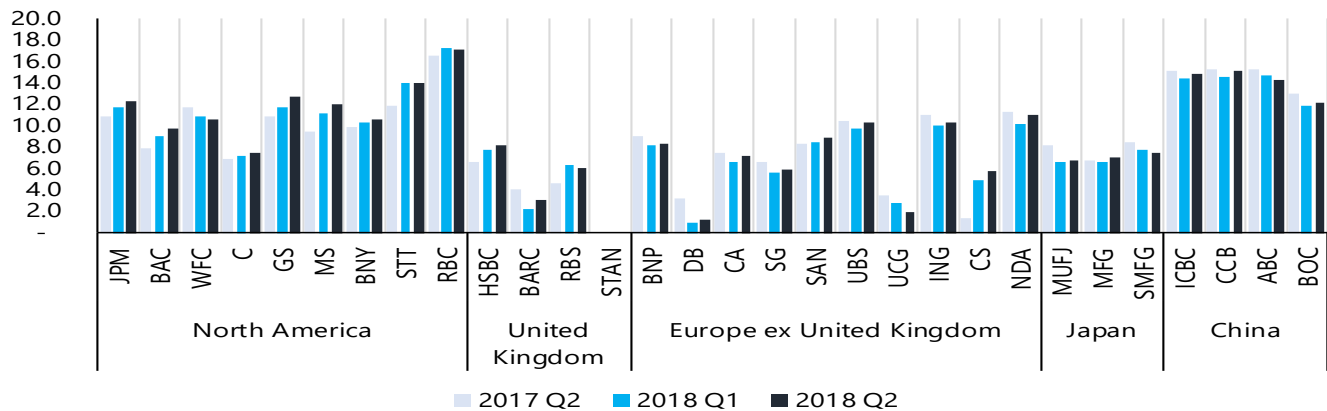
Note: FICC = Fixed income, currencies and commodities.

Sources: Bloomberg, staff analysis.

Appendix: Bank by Bank Performance

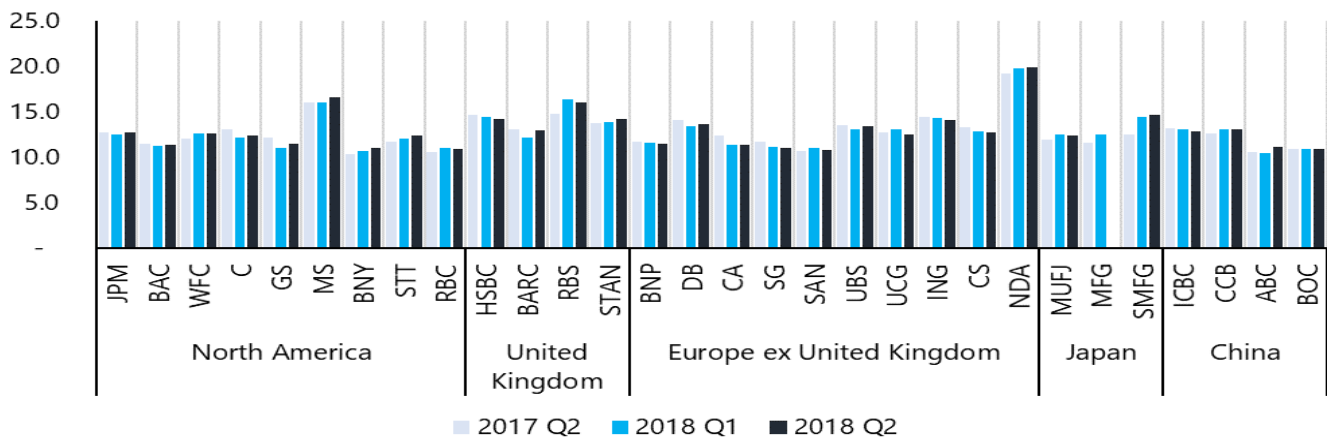
Several GSIBs in Europe, the United Kingdom and Japan continue to generate ROEs below 8 percent.

Chart 28. Normalized Return on Equity (RoE adjusting for one-offs and non-recurring charges)
(Percent)



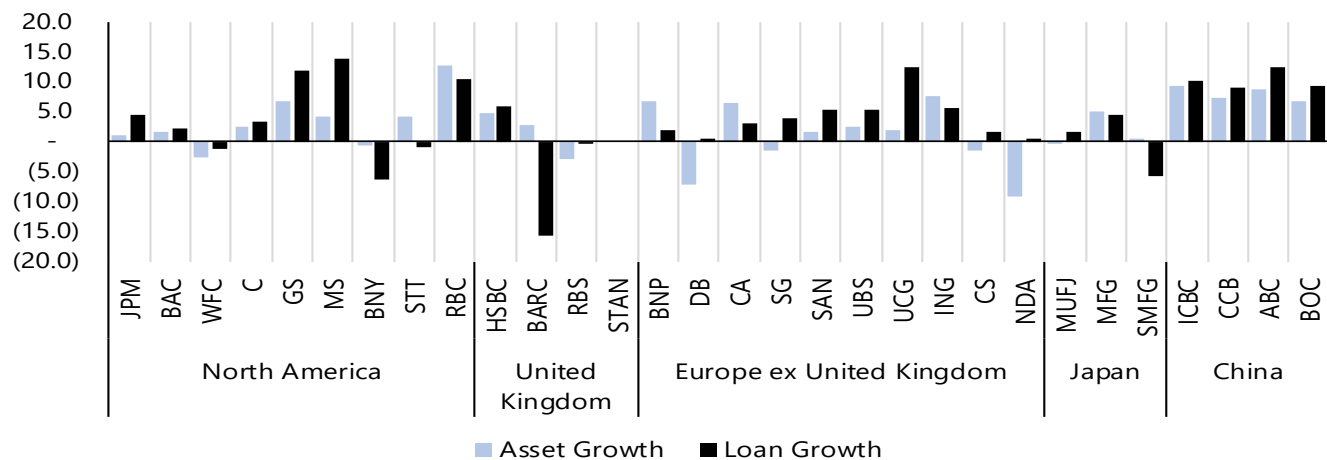
Capital ratio trends are mixed, with several banks particularly in Europe reporting modest declines.

Chart 29. Common Equity Tier 1 Ratio
(Percent)



Growth is uneven across banks, particularly in Europe and North America

Chart 30. YoY asset and loan growth for the latest quarter



Sources: Bloomberg, and IMF staff analysis.