G-SIBs Monitor H1 2024

Living Up To Expectations

April 25, 2024

S&P Global Ratings

This report does not constitute a rating action

Contents

S&P Global Ratings

Key Takeaways

- **We expect European and North American global systemically important banks (G-SIBs) will remain resilient and continue to record solid profits in 2024** – they are mostly operating within our expectations.
- **We took positive rating actions on two G-SIBs in the past six months:** We upgraded Deutsche Bank to 'A', reflecting strengthening performance and resilience, and we revised the outlook on JP Morgan to positive, reflecting franchise strength and ability to deliver solid results.
- **Overall, the issuer credit ratings on European and North American G-SIBs' operating companies stand within the high 'A' to 'AA-' range**, reflecting their scale as well as their business and/or geographic diversification. Some rating differences stem from the level of economic and industry risks that they face (relatively lower for Swiss and Canadian G-SIBs) and from the firms' own risk profiles. Notably, we see a significant bifurcation in terms of equity valuations, with price-to-book ratios of North American G-SIBs twice as high compared with European ones. From a credit perspective, weak valuations can undermine financial flexibility for European banks, and potentially weaken stakeholder confidence.
- **We expect 2024 to be a relatively benign year for European and North American G-SIBs' financial performance**, with still high--though gradually declining--earnings and normalizing credit and funding costs. Solid capitalization and funding profiles should continue to underpin their credit strength. They also have access to the capital markets with decent interest spreads, including the Additional Tier 1 (AT1) market in Europe, which has returned to normal following the collapse of Credit Suisse.
- **EU G-SIBs have enhanced the depth of their climate-related disclosures in 2024**, in response to regulatory requests. We took a closer look at their green asset ratios (GARs) and found that, despite the increase in transparency, key features in the design of the ratio and differences in national legislations largely blur the comparability of the metric, for the time being.

Recent Developments

We took positive rating actions on two G-SIBs in the past six months: Deutsche Bank and JPMorgan

Dec. 8
We upgraded Deutsche Bank to 'A' on strengthening performance and resilience.

Dec. 14
EU legislators agreed on a new Banking Package, finalizing the implementation of Basel III in the EU.

Jan. 16
End of the consultation period on the U.S. Basel III Endgame proposals put forward by the agencies. It is unclear to what extent and when the U.S. regulator will amend the proposal.

Feb. 6
We affirmed the ratings on UBS' entities based on material progress in the group's restructuring following the Credit Suisse acquisition.

March 13
The European Central Bank announced its new operational framework, size of the balance sheet, and refinancing conditions for banks.

March 20
The SNB cut its key interest rate by 0.25 percentage points to 1.5 making it the first major central bank to ease monetary policy.

April 1
We revised our outlook on JPMorgan to positive on franchise strength and ability to deliver solid results.

bps--Basis points. BoE--Bank of England. EBA--European Banking Agency. ECB--European Central Bank. HoldCo--Holding company. OpCo--Operating company. SNB--Swiss National Bank.

G-SIB Ratings | Stability Despite Divergent Performances

- **The ratings and outlooks on the European and North American G-SIBs remain resilient**, with one positive outlook and 18 stable outlooks on the operating company ratings.
- The positive outlook on the **JPMorgan Chase** ratings reflects our view that it is well positioned to deliver peer-leading results under various macroeconomic scenarios, given its business strength and diversification.
- The negative outlook on the **UBS HoldCo** ratings mainly reflects the execution risk arising from the integration and restructuring of **Credit Suisse**. The stable outlook on the **UBS operating company ratings** recognizes that a one-notch downward revision of the group stand-alone credit profile (SACP) to 'a-' is unlikely to affect the ratings on these core entities, thanks to the high additional loss-absorbing capacity (ALAC) buffer and the additional notch of ALAC uplift that would be available in this scenario.

	Anchor	Business position	Capital and earnings	Risk position	Funding and liquidity	CRA	SACP	Support type	OpCo ICR/outlook	HoldCo ICR
HSBC	bbb+	Strong (+1)	Adequate (+0)	Strong (+1)	Strong/Adequate (+0)	0	a	ALAC (+1)	A+/Stable	A-/Stable
BNP Paribas	bbb+	Very strong (+2)	Adequate (+0)	Adequate (+0)	Adequate/Adequate (+0)	0	a	ALAC (+1)	A+/Stable	-
Credit Agricole	bbb+	Strong (+1)	Adequate (+0)	Strong (+1)	Adequate/Adequate (+0)	0	a	ALAC (+1)	A+/Stable	-
Banco Santander	bbb	Very strong (+2)	Adequate (+0)	Strong (+1)	Adequate/Adequate (+0)	0	a	ALAC (+1)	A+/Stable	-
UBS	a-	Strong (+1)	Strong (+1)	Moderate (-1)	Adequate/Adequate (+0)	0	a	ALAC (+1)	A+/Stable	A-/**Negative**
ING	bbb+	Strong (+1)	Strong (+1)	Adequate (+0)	Adequate/Adequate (+0)	0	a	ALAC (+1)	A+/Stable	A-/Stable
BPCE	bbb+	Adequate (+0)	Strong (+1)	Adequate (+0)	Adequate/Adequate (+0)	0	a-	ALAC (+1)	A/Stable	-
Standard Chartered	bbb+	Adequate (+0)	Adequate (+0)	Adequate (+0)	Strong/Strong (+1)	0	a-	ALAC (+2)	A+/Stable	BBB+/Stable
Barclays	bbb+	Strong (+1)	Strong (+1)	Moderate (-1)	Adequate/Adequate (+0)	0	a-	ALAC (+2)	A+/Stable	BBB+/Stable
Societe Generale	bbb+	Adequate (+0)	Adequate (+0)	Adequate (+0)	Adequate/Adequate (+0)	0	bbb+	ALAC (+2)	A/Stable	-
Deutsche Bank	bbb+	Adequate (+0)	Adequate (+0)	Moderate (-1)	Adequate/Adequate (+0)	+1	bbb+	ALAC (+2)	A/Stable	-
RBC	a-	Strong (+1)	Adequate (+0)	Strong (+1)	Adequate/Adequate (+0)	0	a+	Sovereign (+1)	AA-/Stable	
Toronto-Dominion	a-	Strong (+1)	Adequate (+0)	Strong (+1)	Adequate/Adequate (+0)	0	a+	Sovereign (+1)	AA-/Stable	
JPMorgan	bbb+	Very strong (+2)	Adequate (+0)	Adequate (+0)	Adequate/Adequate (+0)	0	a	ALAC (+1)	A+/Positive	A-/**Positive**
Bank of America	bbb+	Strong (+1)	Adequate (+0)	Strong (+1)	Adequate/Adequate (+0)	0	a	ALAC (+1)	A+/Stable	A-/Stable
Morgan Stanley	bbb+	Strong (+1)	Strong (+1)	Adequate (+0)	Adequate/Adequate (+0)	0	a	ALAC (+1)	A+/Stable	A-/Stable
Citigroup	bbb+	Strong (+1)	Adequate (+0)	Adequate (+0)	Adequate/Adequate (+0)	0	a-	ALAC (+2)	A+/Stable	BBB+/Stable
Goldman Sachs	bbb+	Strong (+1)	Adequate (+0)	Moderate (-1)	Adequate/Adequate (+0)	+1	a-	ALAC (+2)	A+/Stable	BBB+/Stable
Wells Fargo	bbb+	Strong (+1)	Adequate (+0)	Adequate (+0)	Adequate/Adequate (+0)	0	a-	ALAC (+2)	A+/Stable	BBB+/Stable

Ratings as of April 25, 2024. CRA--Comparable ratings analysis. HoldCo--Holding company. ICR--Issuer credit rating. OpCo--Main operating company. SACP--Stand-alone credit profile. Source: S&P Global Ratings.

Transforming A G-SIB Is Undoubtedly Hard, And Some Are Still At It (1/2)

Several G-SIBs have undergone major restructurings in recent years, and the jury is still out on Citi and SocGen

- **Citi** has advanced in executing its "transformation" plan to remediate deficiencies in risk management and improve its technology and data infrastructure. However, we expect its efforts to require significant time and expense.
  - We view positively Citi's efforts to move toward a more cohesive, less complex, and more profitable strategy. However, we are uncertain how successful it will be in reaching the "medium-term" target of 11%-12% return on tangible common equity to which its management committed.

- **SocGen** announced a strategic plan in September 2023 to address some of the bank's challenges, particularly its subpar efficiency compared with global peers because of relatively higher fixed costs. However, the plan also highlights the group's limited growth opportunities compared with peers' and reflects slow economic growth.
  - We will keep track of the strategic execution because this will be key to retain investor confidence. We also see achieving these targets over the plan's time frame as an important support for our 'bbb+' assessment of the bank’s SACP and, therefore, the ratings.

Transforming A G-SIB Is Undoubtedly Hard, And Some Are Still At It (2/2)

Wells Fargo has made positive strides recently; the integration of Credit Suisse is on track for UBS but entails material tail execution risks

- **Wells Fargo** has made positive strides in strengthening its governance and risk management controls since the asset cap was imposed on it in 2018. This is demonstrated by the termination of several outstanding consent orders with the Office of the Comptroller of the Currency and the Consumer Financial Protection Bureau. Still, we can not rule out that further regulatory issues may arise or additional settlements with other regulators related to Wells' legacy practices may be incurred.
  - The asset cap, for the most part, has had a limited effect on Wells' customer base. Moreover, Wells has also improved its profitability metrics and posted an 11% return on equity in 2023 compared with 7.8% in 2022.
- We think **UBS** is on track to integrate and restructure Credit Suisse's operations. Risks related to the valuations of the Credit Suisse assets are increasingly more transparent and unlikely to affect the group's strong capital.
  - That said, we continue to see material tail execution risks related to management's plans to deliver on the group's performance and efficiency targets.

G-SIBs Peer Group | North American and European G-SIBs Are Most Comparable

G-SIB scores and capital surcharges

The shown scores are based on the Method 1 as calculated by the Basel Committee on Banking Supervision. U.S. banks must calculate a capital surcharge based on a second method (which tends to be higher). No G-SIB falls into bucket 5. CET-1--Common Equity Tier 1. Source: S&P Global Ratings.

- G-SIB classification and tiering aims to reflect the level of negative externalities associated with each G-SIBs.
- Three of the five banks in the highest two buckets are U.S. banks. Most European G-SIBs are in the lower bucket.
- Banks with higher G-SIB scores are subject to higher additional capital requirements (G-SIB buffer) to address the potential negative effects that these institutions might have on the international or domestic financial system if they were to fail.

G-SIBs Peer Group | Basel Committee Calls Time On Window-Dressing

The committee seeks to change how it judges a bank's systemic importance

More details in this research >>

- **The Basel Committee on Banking Supervision (BCBS) is consulting on changes regarding how it assesses G-SIBs.** This G-SIB determination is mainly based on balance-sheet ('stock') metrics. The BCBS argues that using year-end data points for some of these metrics encourages banks to window-dress their year-end balance sheets to ease buffer requirements.
  - The committee is therefore seeking industry feedback on possible averaging frequencies for key indicators--month-end, quarter-end, or daily averaging (preferring the latter).
- **The BCBS consultation is open for three months,** after which it will reflect on stakeholders' responses and determine what changes to make. We consider it highly likely that BCBS will introduce some kind of averaging method, as it already has for calculating leverage ratios. The uncertainty is therefore more about the exact methodology it will choose.
  - **Potential changes would only take effect from Jan. 1, 2027** (after the end-2026 G-SIB assessment exercise).
- **U.S. agencies have also put forward proposals to similarly introduce averaging** for the calculation of the G-SIB surcharge under their "Method 2" approach. They also proposed that G-SIB surcharges have smaller bands of 10 to 20 basis points (bps), rather than the current 50 bps band, to eliminate a cliff effect.

G-SIB indicators and data item

Category (and weighting)	Individual indicator	Weighting (%)	Stock/ flow variable
Cross-jurisdictional activity (20%)	Cross-jurisdictional claims	10	Stock
	Cross-jurisdictional liabilities	10	Stock
Size (20%)	Total exposures as defined for use in the Basel III leverage ratio*	20	Stock
Interconnectedness (20%)	Intra-financial system assets*	6.67	Stock
	Intra-financial system liabilities*	6.67	Stock
	Securities outstanding*	6.67	Stock
Substitutability/financial institution infrastructure (20%)	Assets under custody	6.67	Stock
	Payments activity	6.67	Flow
	Underwritten transactions in debt and equity markets	3.33	Flow
	Trading volume	3.33	Flow
Complexity (20%)	Notional amount of over-the-counter derivatives*	6.67	Stock
	Level 3 assets*	6.67	Stock
	Trading and available-for-sale securities	6.67	Stock

*Extended scope of consolidation to include insurance activities. Source: Basel Committee on Banking Supervision.

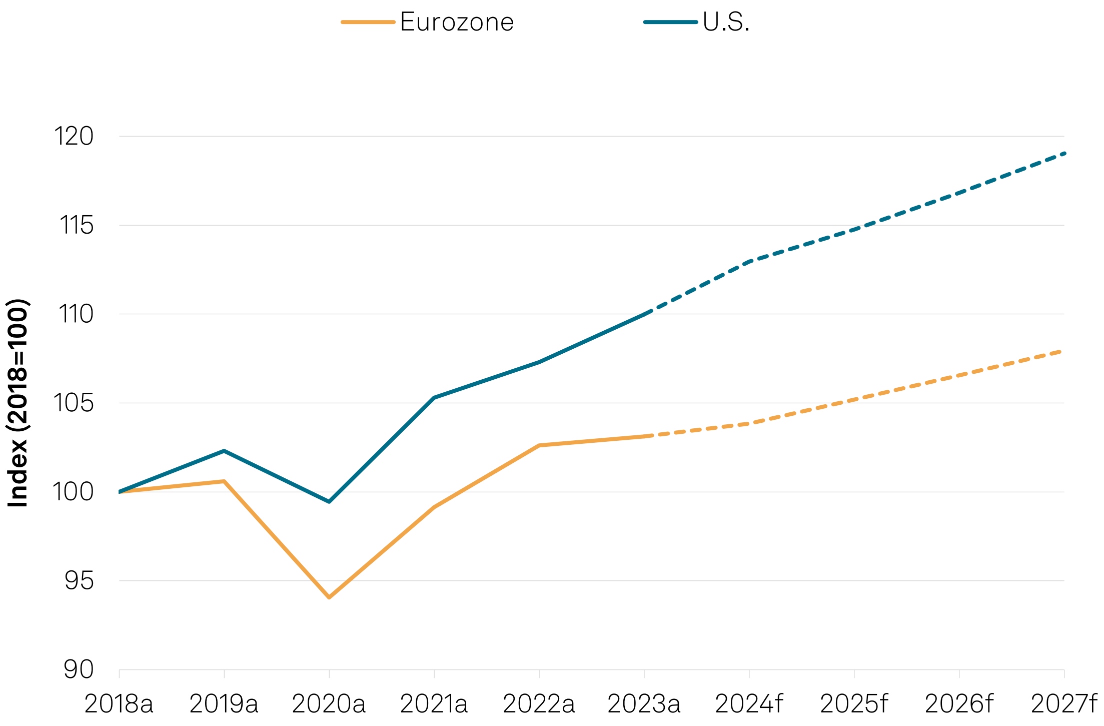
European Versus North American G-SIBs

Review of structural differences in business and credit profiles

GDP Gap Set To Widen Further While Policy Rates May Temporarily Diverge

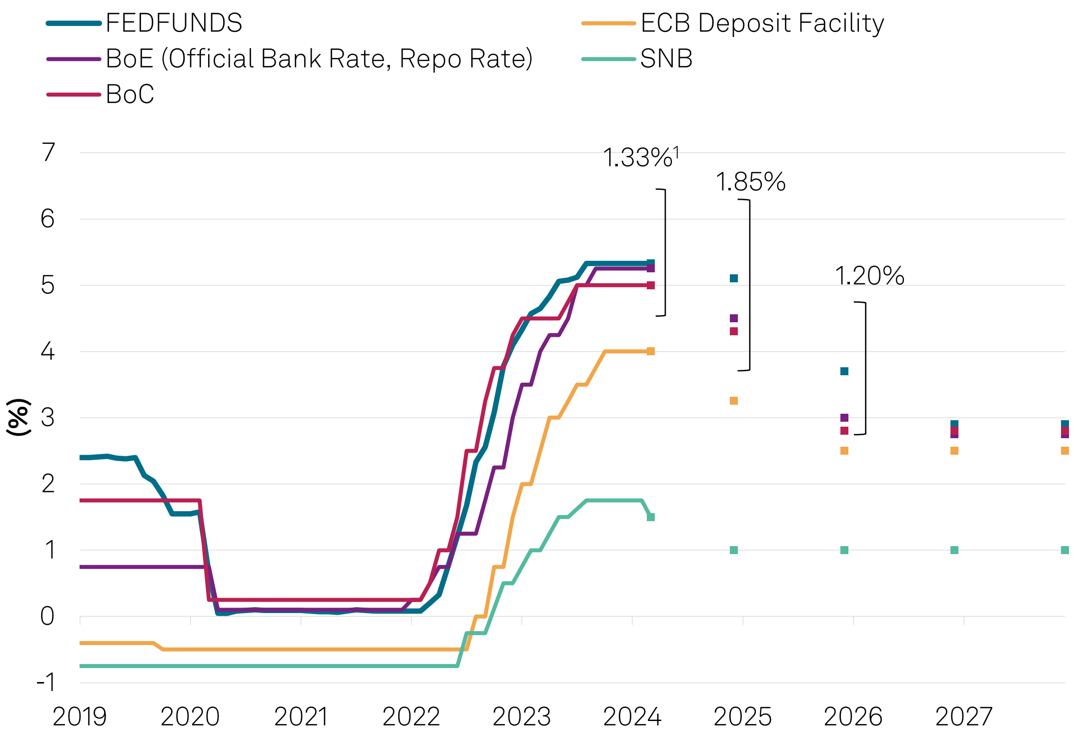
Faster rate cuts are expected in the eurozone compared with U.S., but the rates differential should narrow again from 2026

GDP growth and forecasts relative to 2018 levels



a--Actual. f--Forecast. Source: S&P Global Ratings.

Key policy rates in Europe and North America

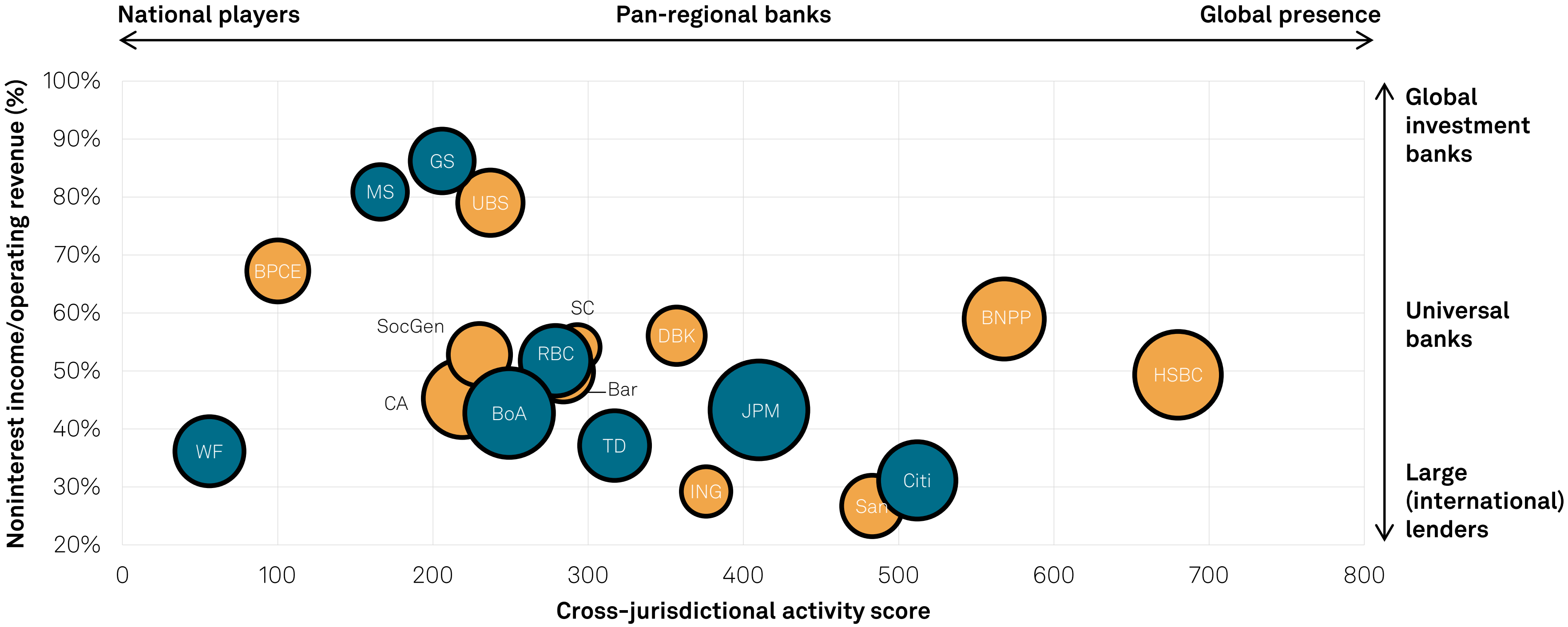


[1] Gap refers to the difference between the main Fed and ECB policy rates. Dots indicate our forecast of policy rates per year-end 2024-2027. Sources: US Fed, ECB, BOE, Bank of Canada, SNB, S&P Global Ratings.

S&P Global Ratings

Business And Geographic Diversification Is A Key Source Of Credit Strength And Differentiation For G-SIBs

Key strategic differentiators: geographic and business diversification



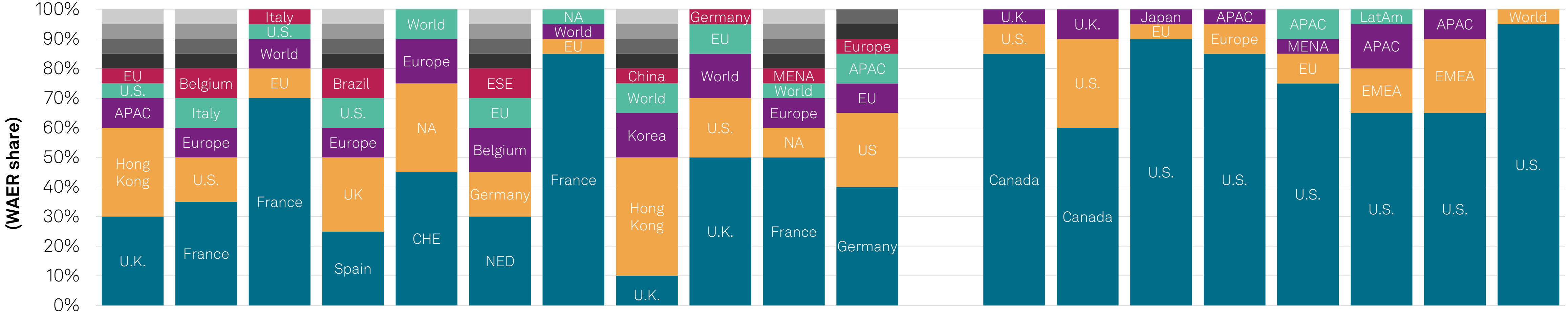
The cross-jurisdictional activity score is one element of the G-SIB methodology. It is calculated based on the cross-jurisdictional claims and liabilities of a bank. Bubble size reflects total assets as per year-end 2023 in euros. Blue--North American entities. Gold--European entities. CA--Groupe Credit Agricole. Source: S&P Global Ratings.

- Most G-SIBs are large, diversified universal banks with varying degrees of international presence.
- UBS, Goldman Sachs, and Morgan Stanley have dominant positions in international wealth management and/or investment banking and are therefore more dependent on noninterest income.
- Santander, Citi, ING, and Wells Fargo are primarily large lenders, with large international footprints, except for Wells Fargo.

Limited Variations In Rating Anchors Despite Different Geographic Mix

Only Canadian and Swiss G-SIBs face lower economic and/or industry risks, resulting in higher rating anchors

Geographical breakdown of risk exposures

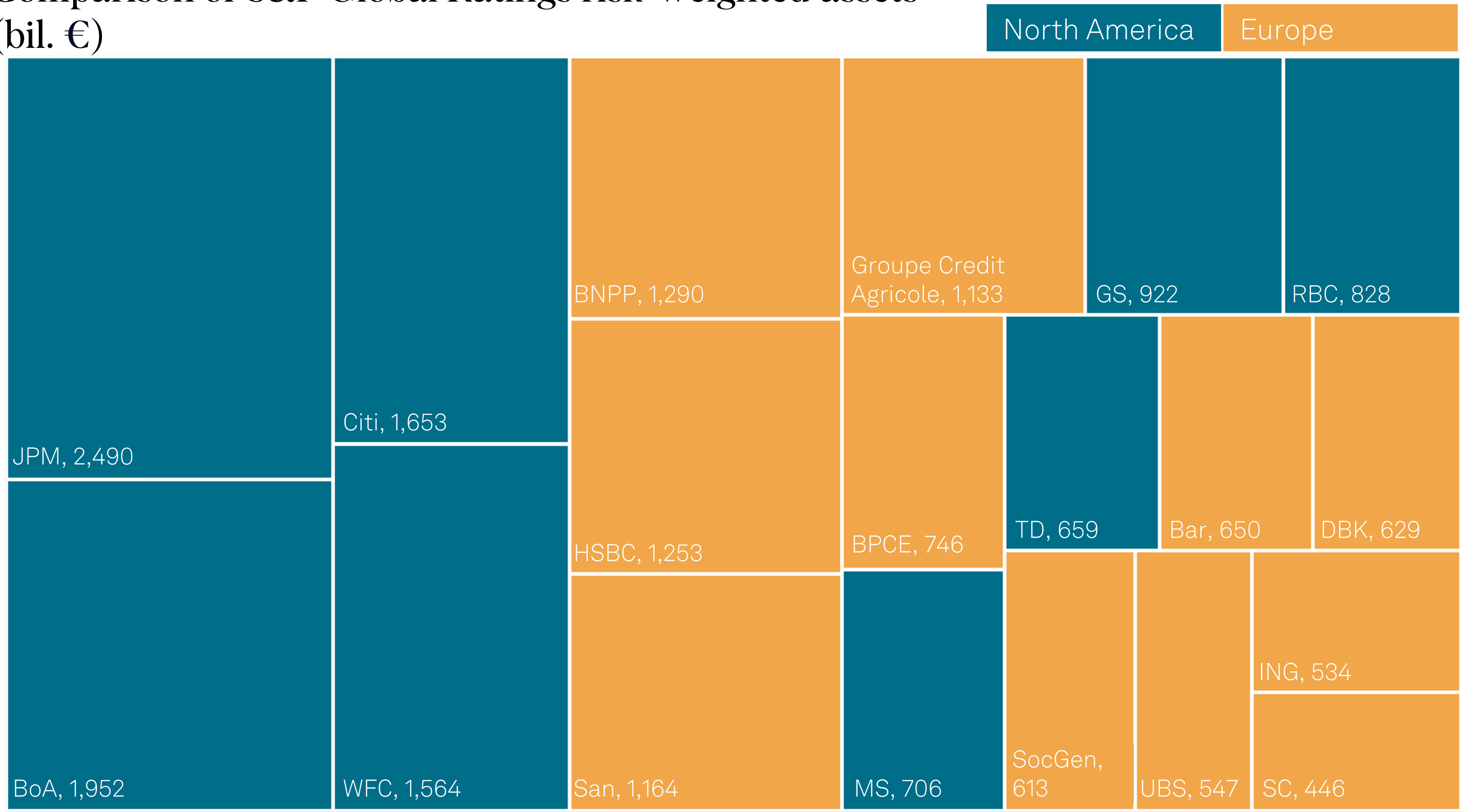


	HSBC (a)	BNPP (a)	Credit Agricole (a)	Santander (a)	UBS (a)	ING (a)	BPCE (a-)	Stand. Chart. (a-)	Barclays (a-)	Soc Gen (bbb+)	Deutsche Bank (bbb+)	RBC (a+)	TD Bank (a+)	JP Morgan (a)	BoA (a)	Morgan Stanley (a)	Citi (a-)	Goldman (a-)	Wells Fargo (a-)
Anchor	bbb+	bbb+	bbb+	bbb+	a-	bbb+	bbb+	bbb+	bbb+	bbb+	bbb+	a-	a-	bbb+	bbb+	bbb+	bbb+	bbb+	bbb+
WAER	4	3	3	4	2	3	3	4	4	3	3	3	3	3	3	3	3	3	3
Industry risk	3	4	4	5	3	3	4	3	3	4	4	2	2	3	3	3	3	3	3

APAC--Asia Pacific. CHE--Switzerland. ESE--Eastern and Southern Europe. LatAm--Latin America. MENA--Middle East and Northern Africa. NA--North America. NED--Netherlands. WAER--Weighted average economic risk, calculated based on the geographic exposures of the bank and the economic risk scores of the various jurisdictions where it has exposures. Source: S&P Global Ratings.

Greater Size For U.S. G-SIBs Largely Reflects Larger Domestic Market

Comparison of S&P Global Ratings risk-weighted assets (bil. €)



Values refer to the forecasted RWA for 2024. Source: S&P Global Ratings.

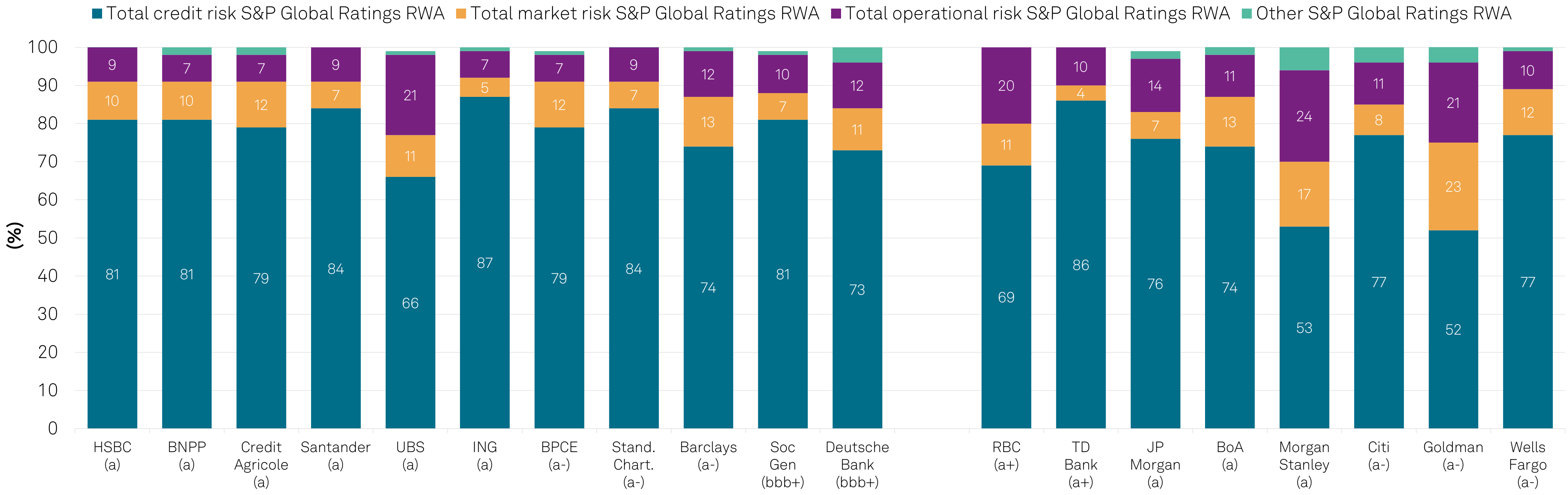
- S&P Global Ratings risk-weighted assets (RWAs) are most directly comparable across the peer group, given regulatory differences affecting regulatory RWAs, and accounting differences affecting reported total assets.
- U.S. G-SIBs stand out with larger S&P Global Ratings RWAs, mainly resulting from greater market concentration.
- The picture is more scattered for European G-SIBs, with more G-SIBs of smaller sizes.

S&P Global Ratings

Business Profiles Drive Differences In RWAs...

Credit RWAs dominate for all G-SIBs, but market and operational risks are substantial for global investment banks

S&P Global Ratings RWAs breakdown as of year-end 2023



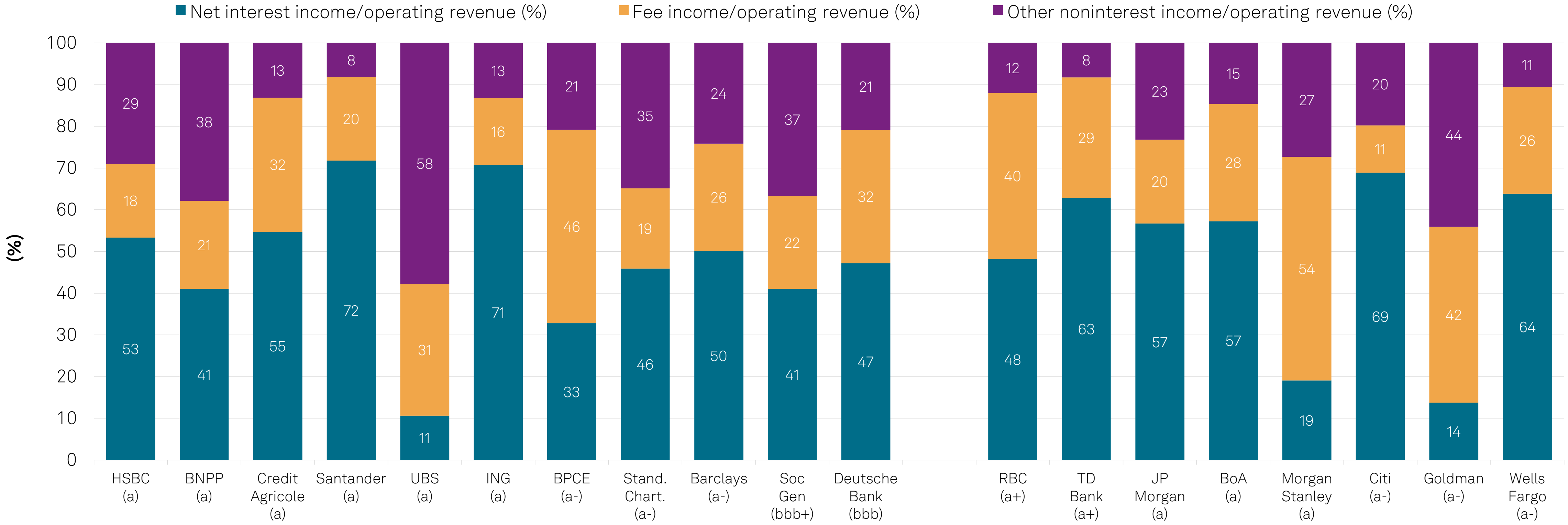
For European G-SIBs data refers to year-end 2022. Credit Agricole refers to Groupe Credit Agricole. RWA--Risk-weighted assets. Source: S&P Global Ratings.

S&P Global Ratings

... And In Revenue Splits

Increasing recurring net fee income is a common goal for all G-SIBs, with different results so far

Operating revenue breakdown as of year-end 2023

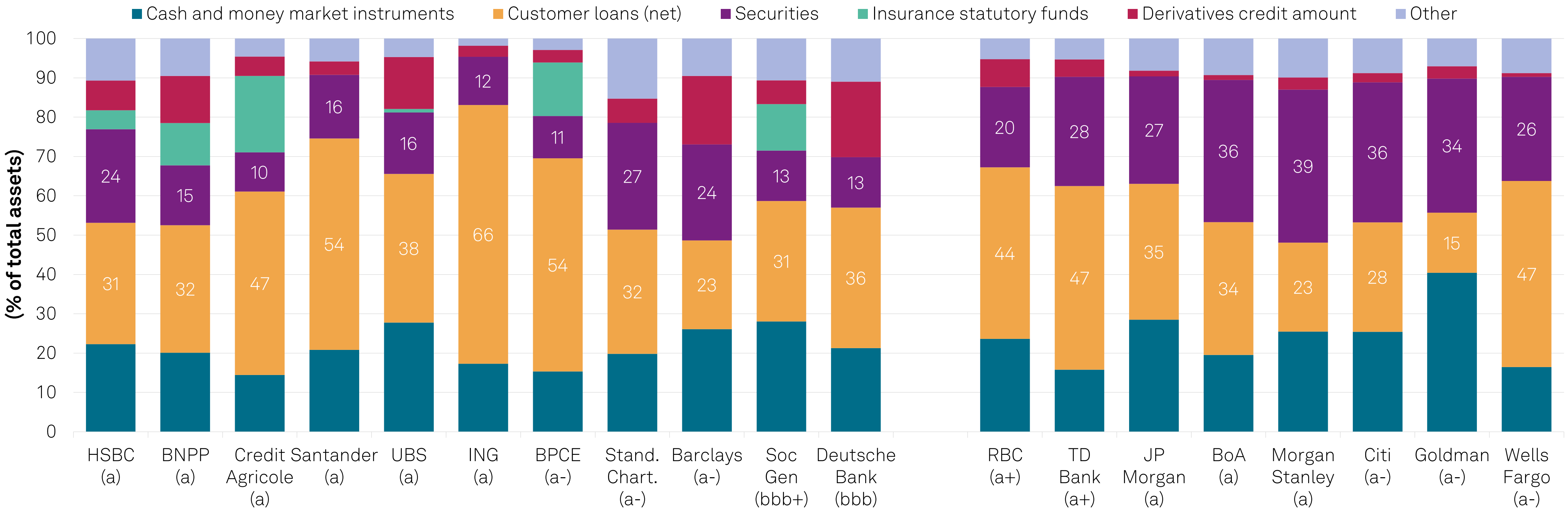


Source: S&P Global Ratings. Credit Agricole refers to Groupe Credit Agricole. Other noninterest income = 100% – share of net interest income – share of fee income.

Differences In Asset Composition Reflect Business Models

European G-SIBs tend to carry larger loan portfolios on balance sheet compared with their North American peers

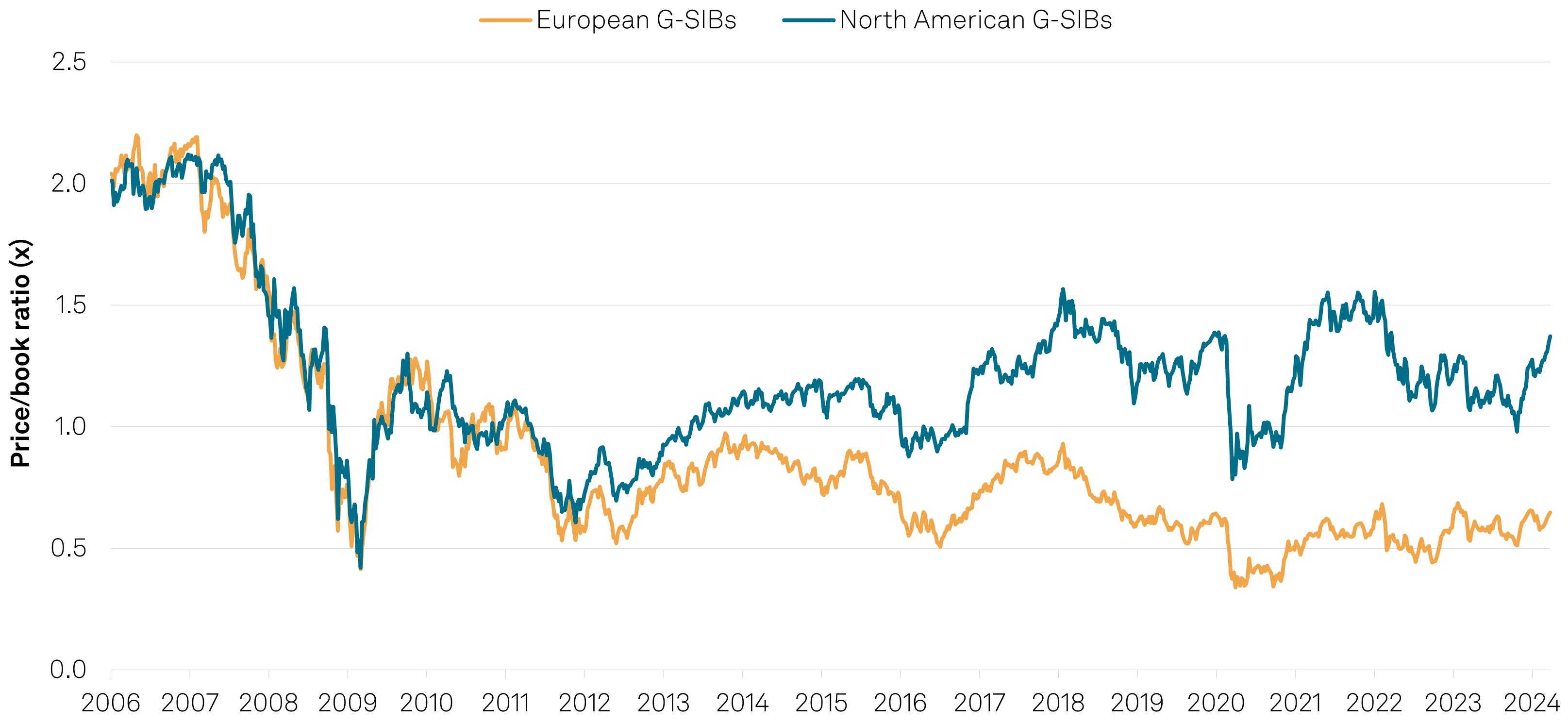
Balance sheet breakdown as of year-end 2023



Source: S&P Global Ratings. Credit Agricole refers to Groupe Credit Agricole. Differences in the share of derivatives reflects inconsistent treatment across accounting standards (i.e. derivatives are grossed up according to IFRS (European and Canadian G-SIBs) and netted according to US GAAP).

European G-SIBs Have Not Closed The Valuation Gap To Their North American Peers Despite Generous Shareholder Distributions And High Profits

Aggregated price to book ratio since 2006

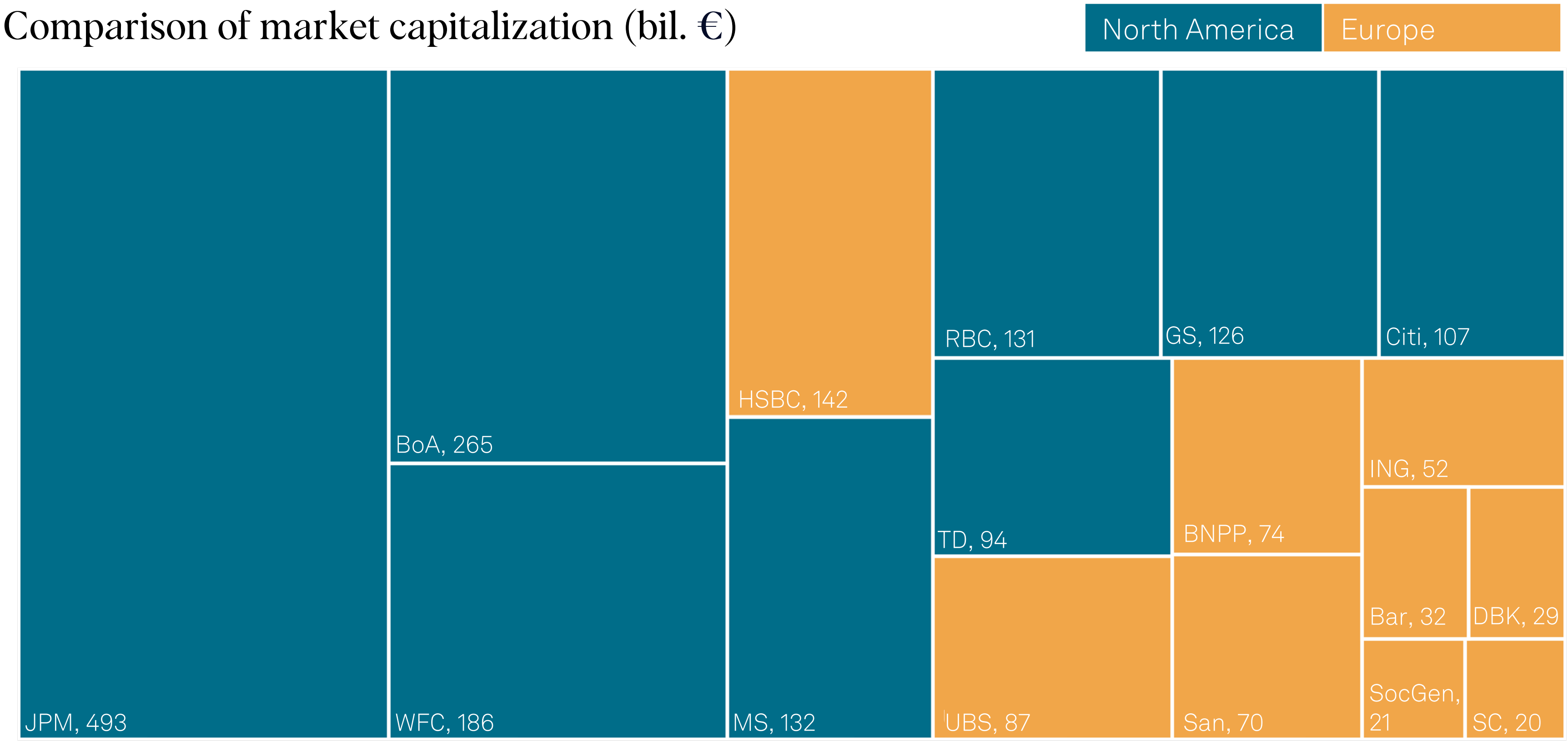


Source: S&P Global Ratings.

- The 2007–2008 financial crisis hit all G-SIBs' valuations equally, but the eurozone debt crisis opened a valuation gap that has since widened.
- Since 2012, European G-SIBs typically trade below book value. The recent rising profitability and dividend distributions have barely moved the needle for European G-SIBs, suggesting sustained market doubts.
- From a credit perspective, weak valuations undermine financial flexibility, not least access to further capital, and can weaken stakeholder confidence.

European G-SIBs Market Caps Are Dwarfed By Their North American Peers

Comparison of market capitalization (bil. €)



Data as of April 15, 2024. BPCE and Credit Agricole Group are not shown because they are not listed. Source: S&P Global Ratings.

- North American G-SIBs' combined market capitalization amounts to €1.5 trillion compared with €0.6 trillion for European G-SIBs.
- JPMorgan's market cap alone is almost equivalent to the combined market cap of all European G-SIBs (€493 billion compared with €570 billion).

European Versus North American G-SIBs

Our Key Financial Expectations for 2024

Key Expected Trends In 2024 Financial Performance

Profits are expected to dip but remain solid for most European and North American G-SIBs. We expect funding and credit costs to gradually normalize from low levels

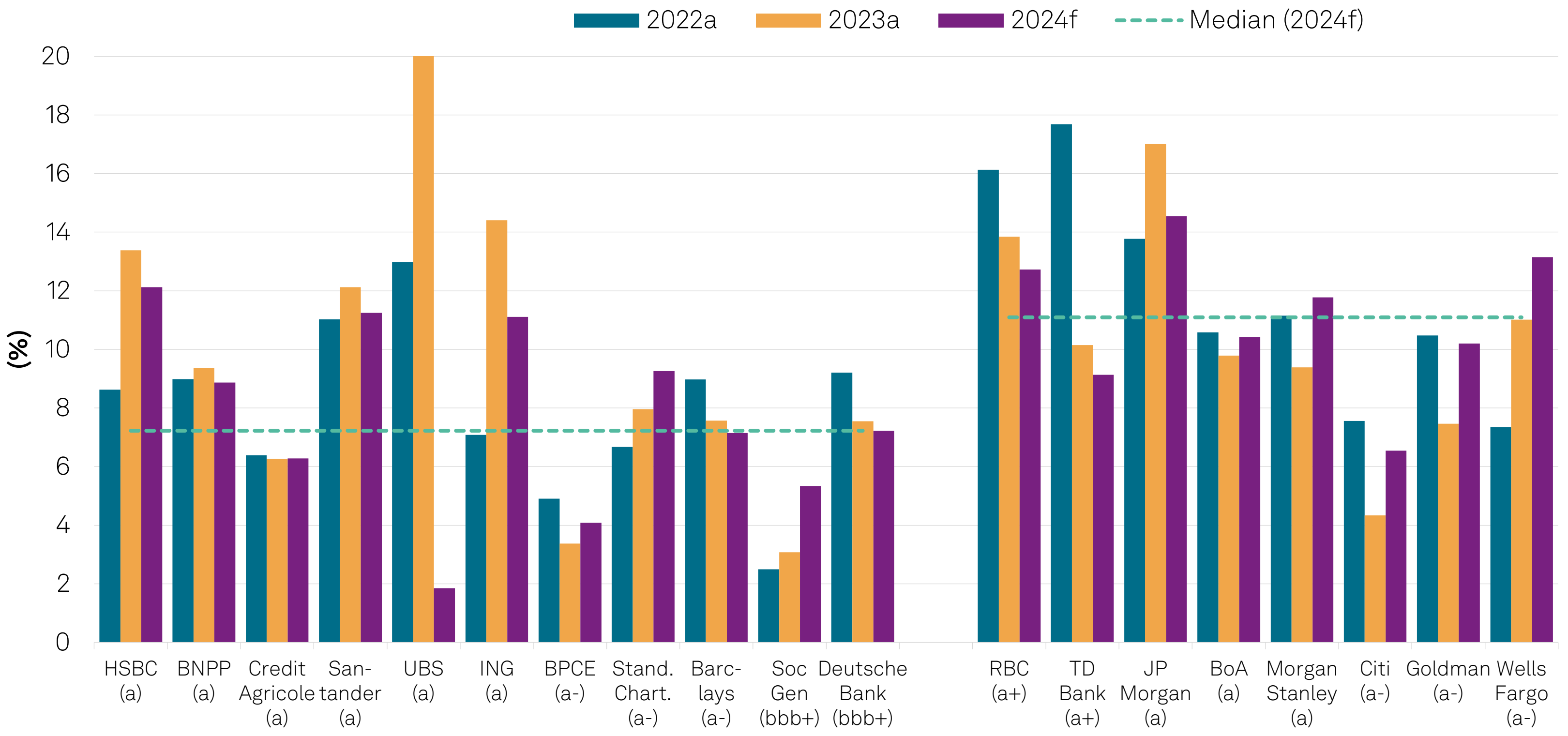
Worsening | Neutral | Improving

Revenue and profitability	Higher funding costs and anticipated interest rate cuts by the central banks should gradually lower margins. Higher fee income, particularly wealth and asset management fees, and the likelihood of stronger capital markets revenue, should help offset net interest income decline. All in all, we expect profitability to remain reasonably solid, though lower than in 2023.
Operating costs	The stalling revenue growth will bring a sharper focus to some of the noninterest cost increases that we observed in 2023 and expect to largely continue. Cost control is therefore likely to be a management focus in 2024 as banks seek to support investment capacity and avoid a material reversal of their cost-to-income ratios.
Credit costs and asset quality	Gradually rising interest rates in real terms and potential fiscal consolidation (especially in Europe) should weigh on economic growth and expose some pockets of credit risk such as U.S. commercial real estate. Therefore, we expect credit costs and overall asset quality pressure to increase moderately in 2024 but remain manageable.
Capital	Overall, we expect that capitalization will remain comfortable. We think U.S. G-SIBs will accrete capital through earnings retention, mainly due to caution about the economy and the Basel III Endgame proposal.

Source: S&P Global Ratings.

Profitability Set To Slightly Decline For Many G-SIBs But Remain Solid In 2024

Return on average common equity

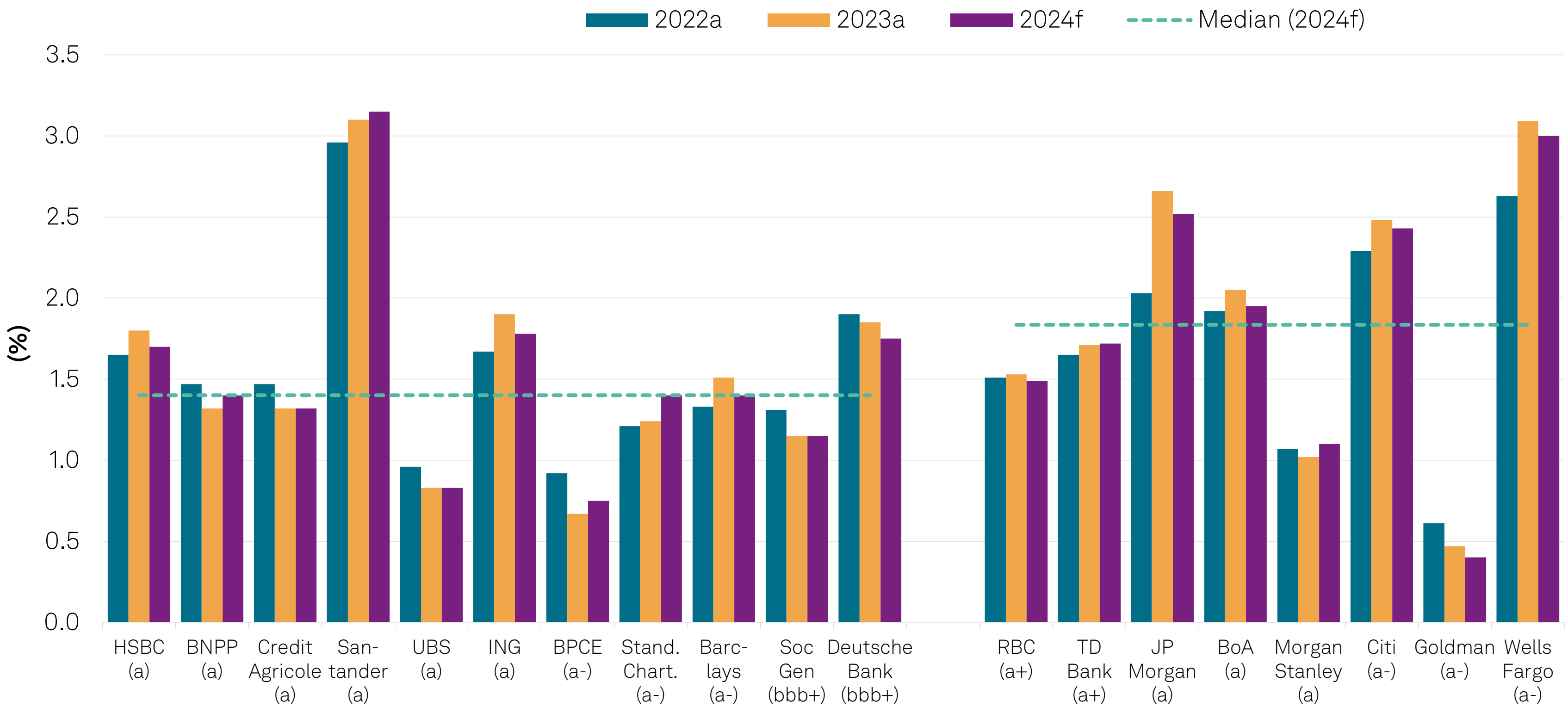


Note: The vertical axis cuts off at 20%, so UBS' 2023 result of 39% is not shown. Credit Agricole refers to Groupe Credit Agricole. The letters in parentheses denote the stand-alone credit profile. a--Actual. f--Forecast. Source: S&P Global Ratings.

- European G-SIBs' profits have been on the rise since 2022, but we think rising funding and credit costs will likely impinge on profits in 2024.
- For many U.S. G-SIBs that are focused on investment banking, we expect better deal flows and therefore fee prospects in 2024 driving profits.
- A profitability gap between North American and European G-SIBs (almost 4 percentage points in return on average common equity) is set to persist in 2024, largely driven by the relatively lower performance of a few French G-SIBs.

We Expect NIMs To Decline Slightly For Most G-SIBs

Net interest margins (NIMs)

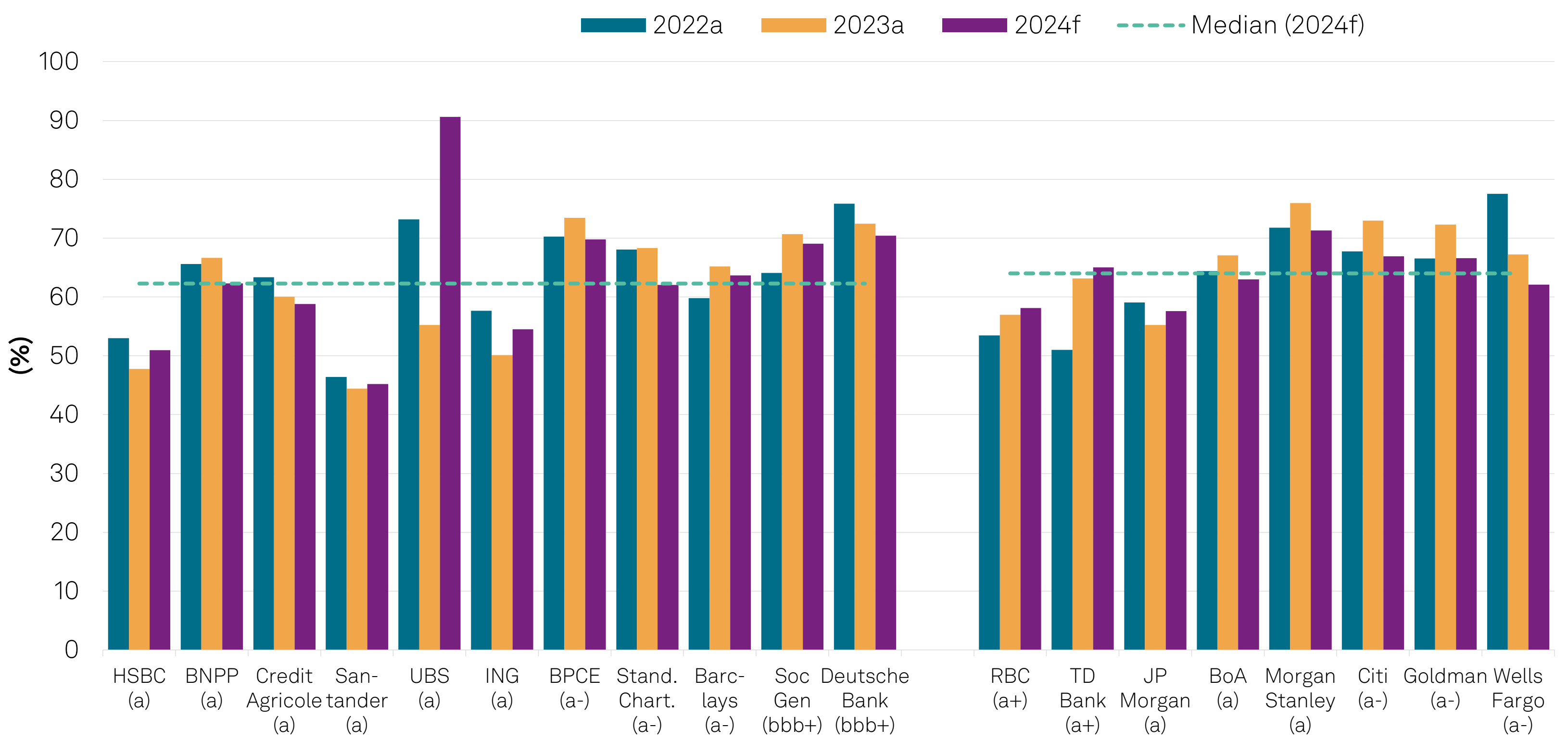


The letters in brackets denote the stand-alone credit profile (SACP). Credit Agricole refers to Groupe Credit Agricole. a--Actual. f--Forecast. Source: S&P Global Ratings.

- In Europe, different NIM trends are largely explained by differences in exposure to interest rate moves.
  - Banks with a high share of floating rate loans such as Barclays, ING, and Santander have seen material improvements.
  - French G-SIBs, however, faced a rapid migration toward more costly term deposits, while long-term fixed-rated mortgages have not repriced much.
- In contrast, the picture in North America is more homogeneous. All banks with a sizable customer loan portfolio have benefitted from higher NIMs.

Efficiency Expected to Progress For Most G-SIBs Despite Tougher Revenue Outlook

Cost-to-income ratio



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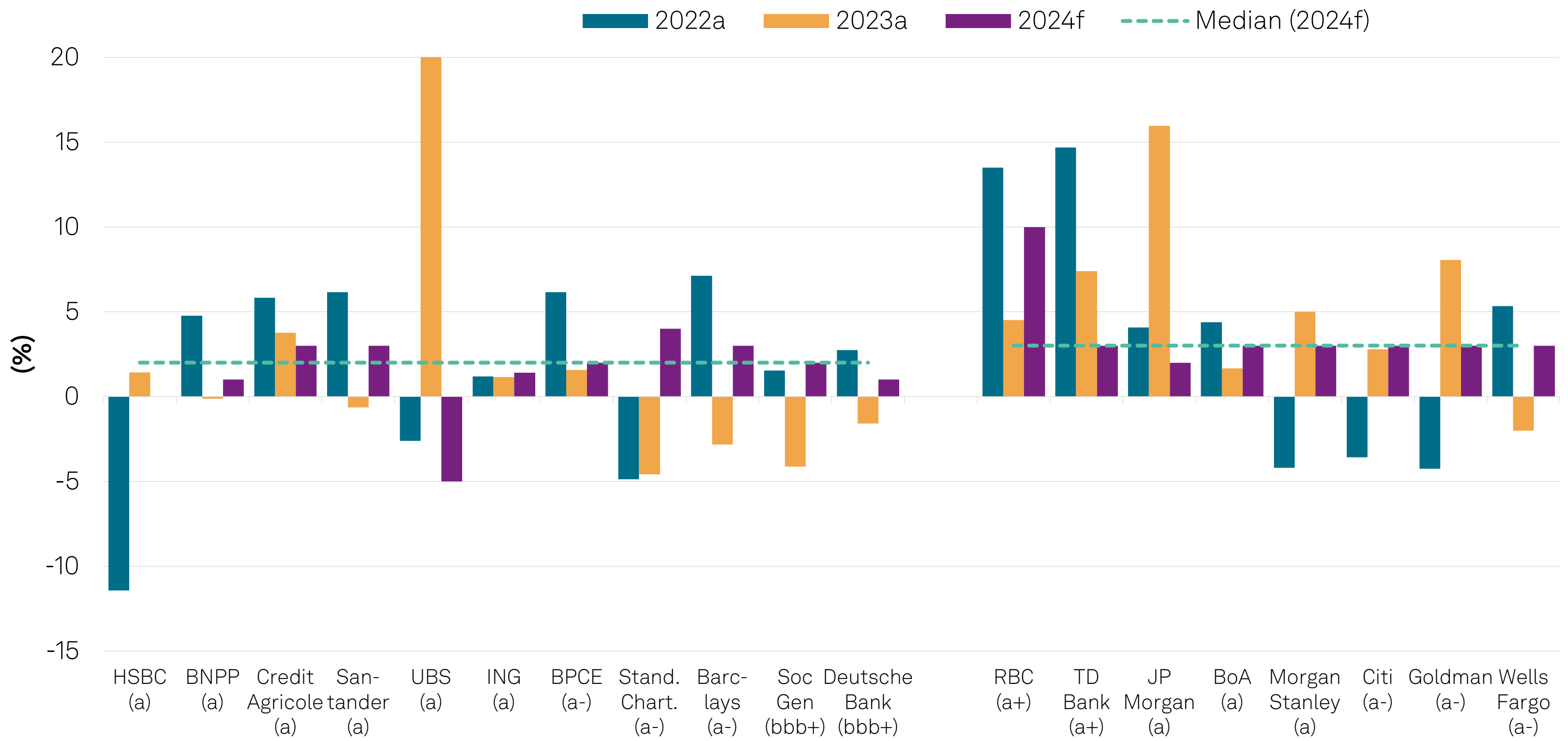
- Lower revenue growth will gradually turn attention back to banks' ability to control costs.
- For U.S. G-SIBs, noninterest expenses rose by 10% in 2023, but we expect efficiency improvements for most in 2024.
- In Europe, cost-to-income ratios still range widely, with Santander and HSBC leading the pack at 40%-50%, while Deutsche Bank, BPCE, and SocGen are at or above 70%.

Higher Interest Rates And Economic Uncertainties Will Keep Customer Loan Growth In Check In 2024

Growth in customer loans

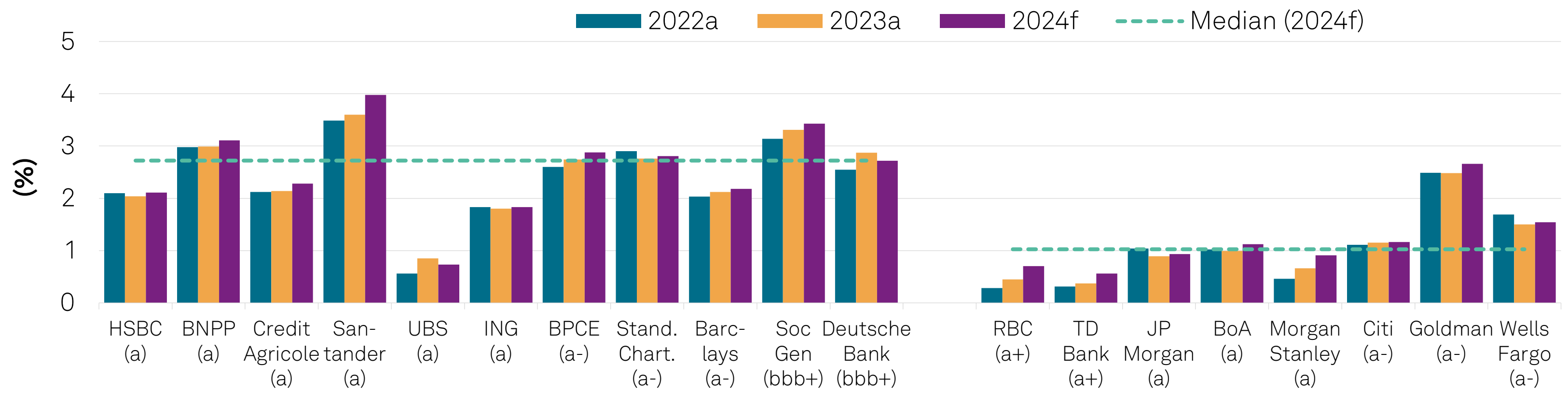


Letters in brackets denote the stand-alone credit profile. Credit Agricole refers to Groupe Credit Agricole. a--Actual. f--Forecast. Source: S&P Global Ratings.

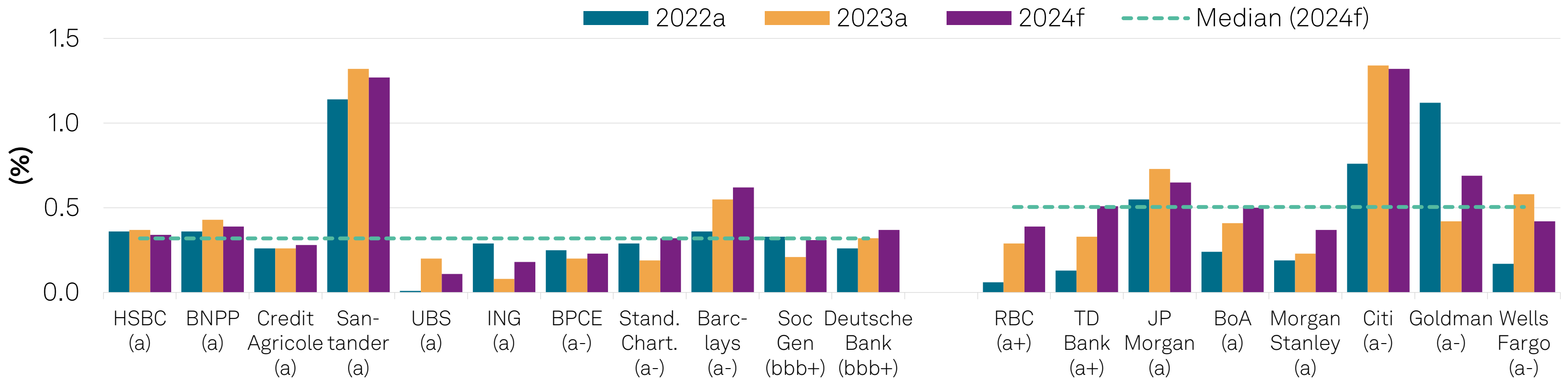
- Loan growth has come down rapidly for most G-SIBs in 2022-2023 due to the tightening of monetary conditions.
- For 2024, we expect loan growth to remain moderate due to higher-for-longer interest rates and limited credit demand from businesses and households.

Asset Quality And Credit Losses Should Inch Higher But Remain Manageable

Gross nonperforming assets to average customer loans and other real estate owned (%)



New loan loss provisions to average customer loans (%)

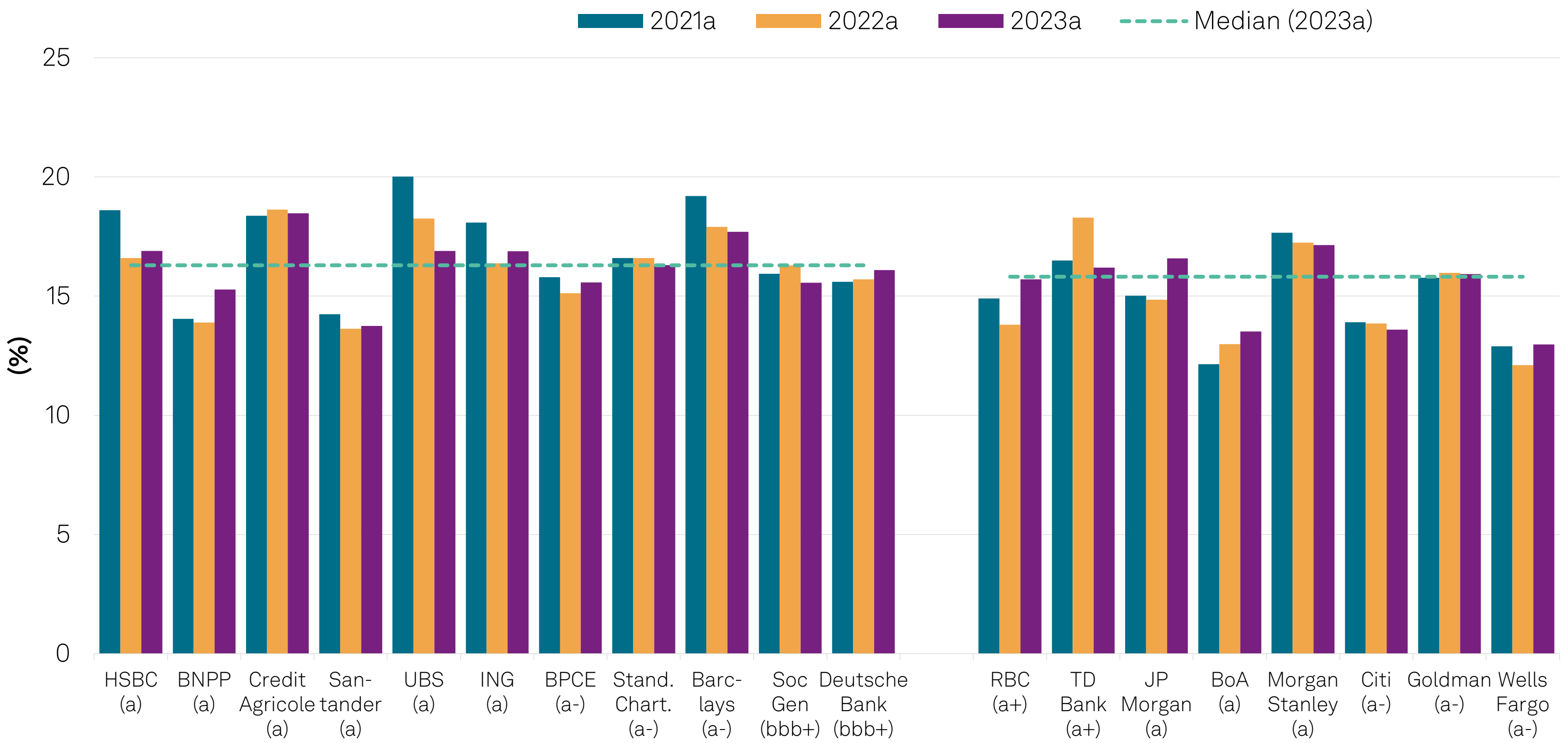


The letters in parentheses denote the stand-alone credit profile. Credit Agricole refers to Groupe Credit Agricole. a--Actual. f--Forecast. Source: S&P Global Ratings.

- Credit portfolios have been remarkably resilient thus far, with no increases in nonperforming assets or provisioning.
- However, higher interest rates will eventually strain borrowers' repayment capacity with consumer, small and midsize enterprise (SME) and commercial real estate portfolios being the most vulnerable, in our view.
- Structural differences between Europe and North America could stem from more rapid charging-off of bad loans in North America, resulting in higher credit losses but lower stock of nonperforming assets – this difference is likely to persist.

Capital Ratios Are Stable Despite Ongoing Shareholder Distributions

Tier 1 ratios

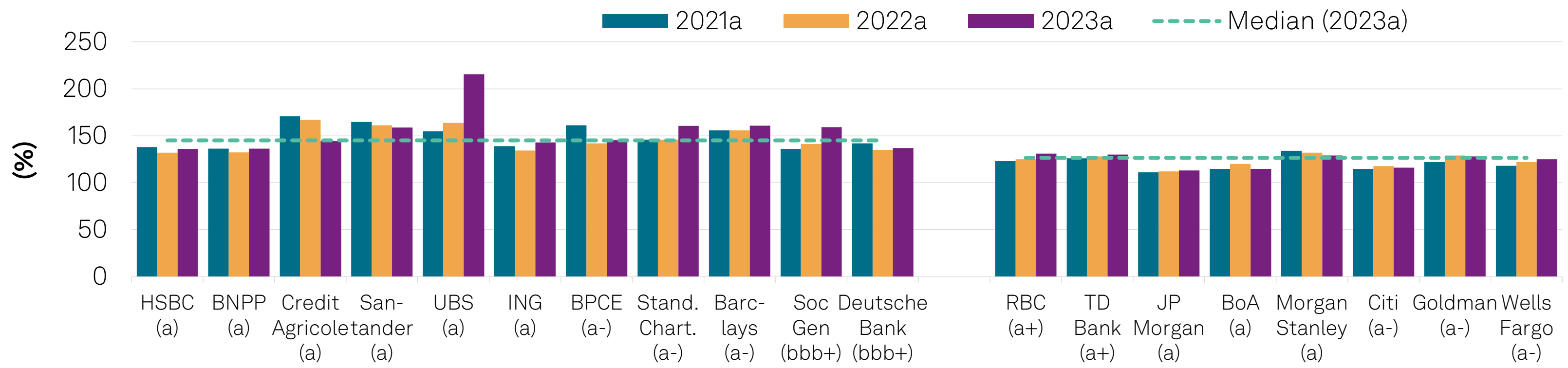


The letters in brackets denote the stand-alone credit profile. Credit Agricole refers to Groupe Credit Agricole. a--Actual. Source: S&P Global Ratings.

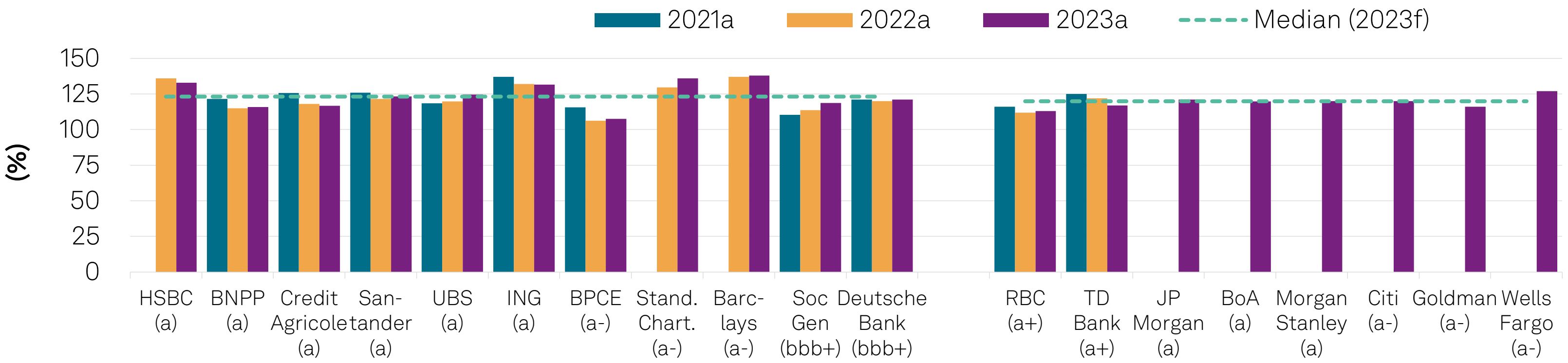
- We expect G-SIBs to maintain their solid capital ratios comfortably above minimum requirements and internal management floors.
- The recent U.S. regulatory proposal to strengthen capital requirements will likely result in higher minimum capital requirements for most U.S. G-SIBs. As a result, the pace of capital distributions will likely be measured.

Regulatory Funding And Liquidity Metrics Are High And Stable

Regulatory liquidity coverage ratio (%)



Regulatory net stable funding ratio (%)



The letters in brackets denote the stand-alone credit profile. Credit Agricole refers to Groupe Credit Agricole. a--Actual. Values for the liquidity coverage ratio refer to the 12-month average in the given year. Except for UBS where they refer to the average of about 60 data points in Q4 of the given year. Source: S&P Global Ratings.

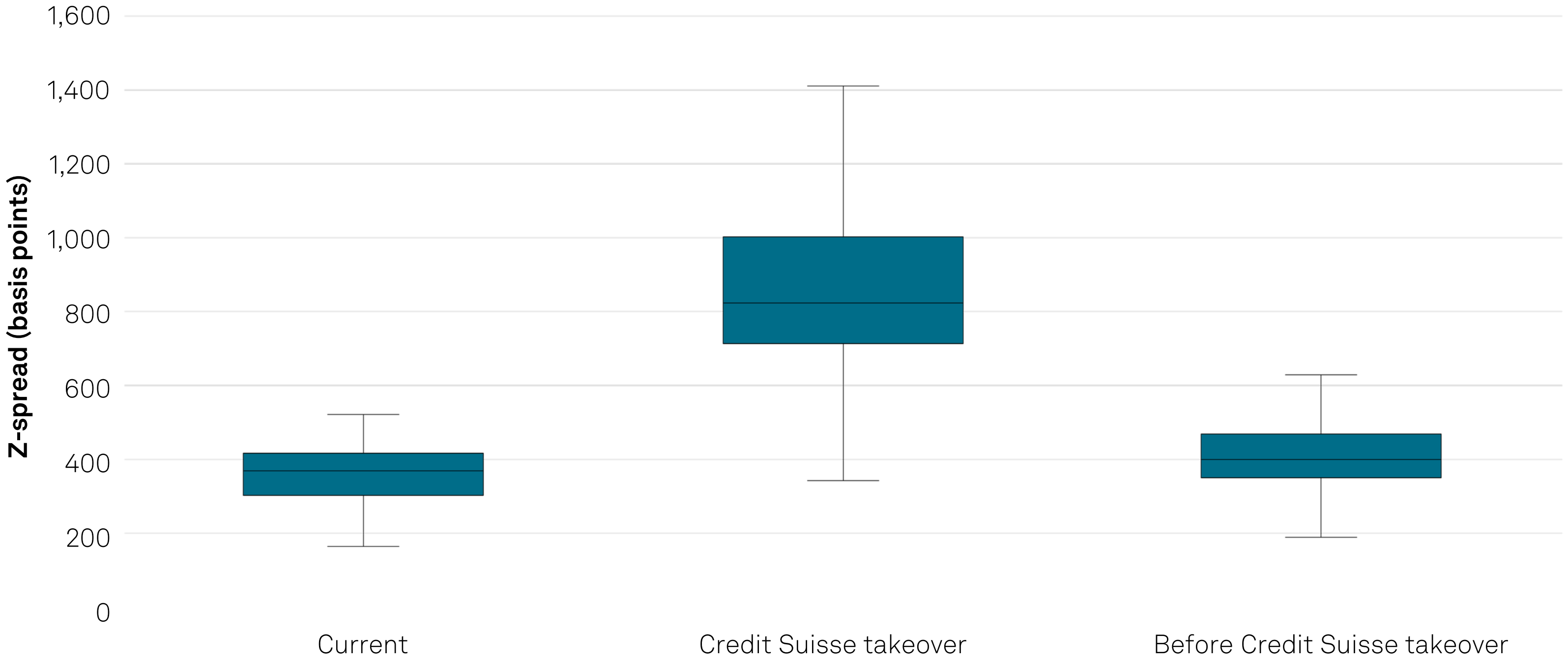
- Regulatory funding and liquidity ratios comfortably exceed minimum requirements for all G-SIBs.
- That said, we expect North American G-SIBs' ratios to remain substantially lower than European G-SIBs', which may partly be due to differences across jurisdictions in the liquidity coverage ratio assumptions.
- Further, higher yielding alternatives for savers have led to a sharp slowdown in deposit growth in the U.S. Indeed, the median deposit growth for U.S. G-SIBs was slightly negative in 2023.

European G-SIBs AT1 Market

Return to normality

Risk Perception Of European AT1 Securities Has Returned To Pre-Credit Suisse Levels

Credit risk spreads of outstanding AT1 instruments of European G-SIBs at different points in time

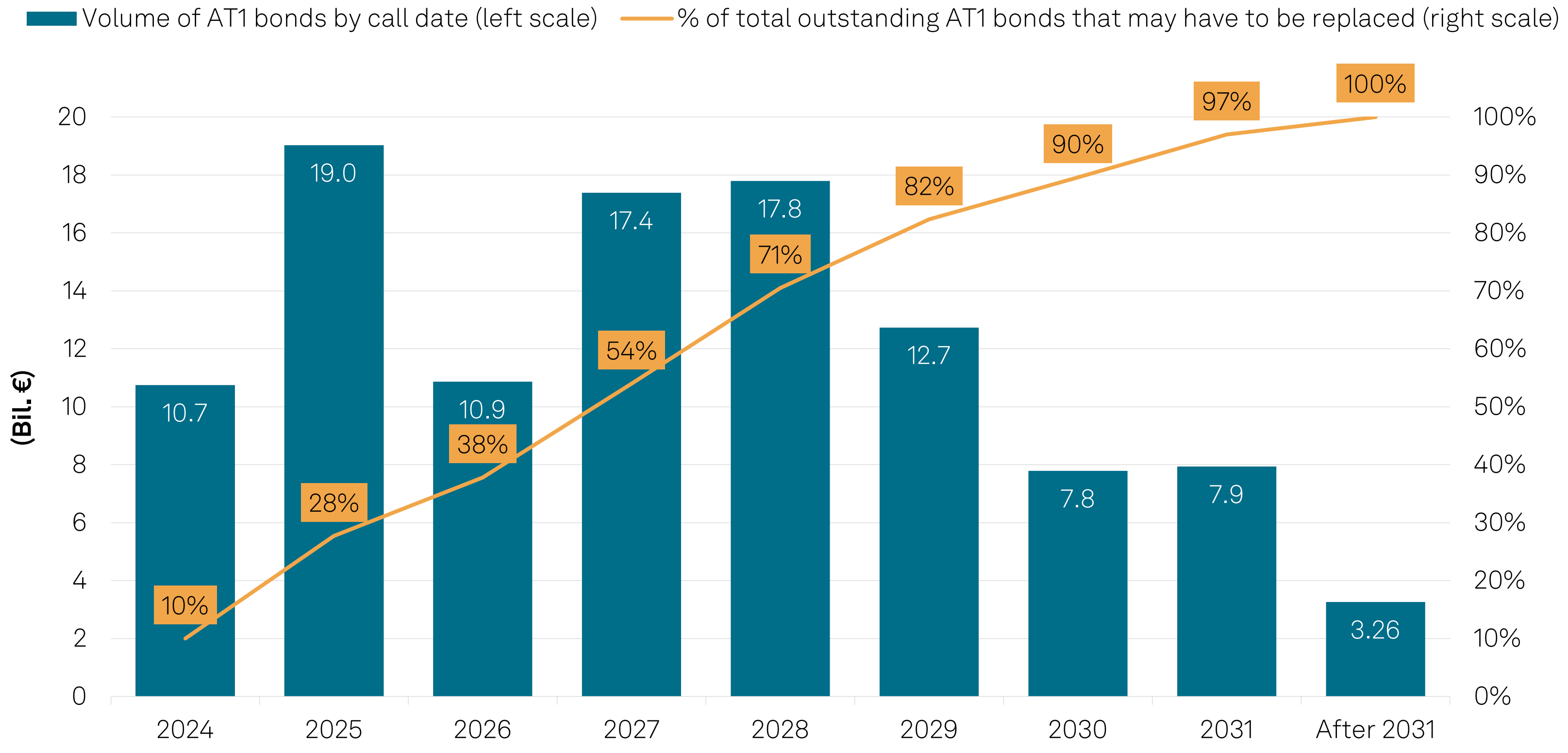


Z-spread – constant spread that equalizes the price of the bond to the received cash flows when added to the treasury yield curve. Chart is based on 47 AT1 bonds for which z-spreads are available at every point of time. Source: S&P Global Ratings.

- Median credit risk spreads on European banks' AT1 bonds more than doubled in the wake of the Credit Suisse collapse to more than 800 bps.
- However, the market has since improved significantly, as indicated by the normalization of spreads and the reduction of spread variability.

AT1 Market | Over €100 Billion Outstanding For European G-SIBs

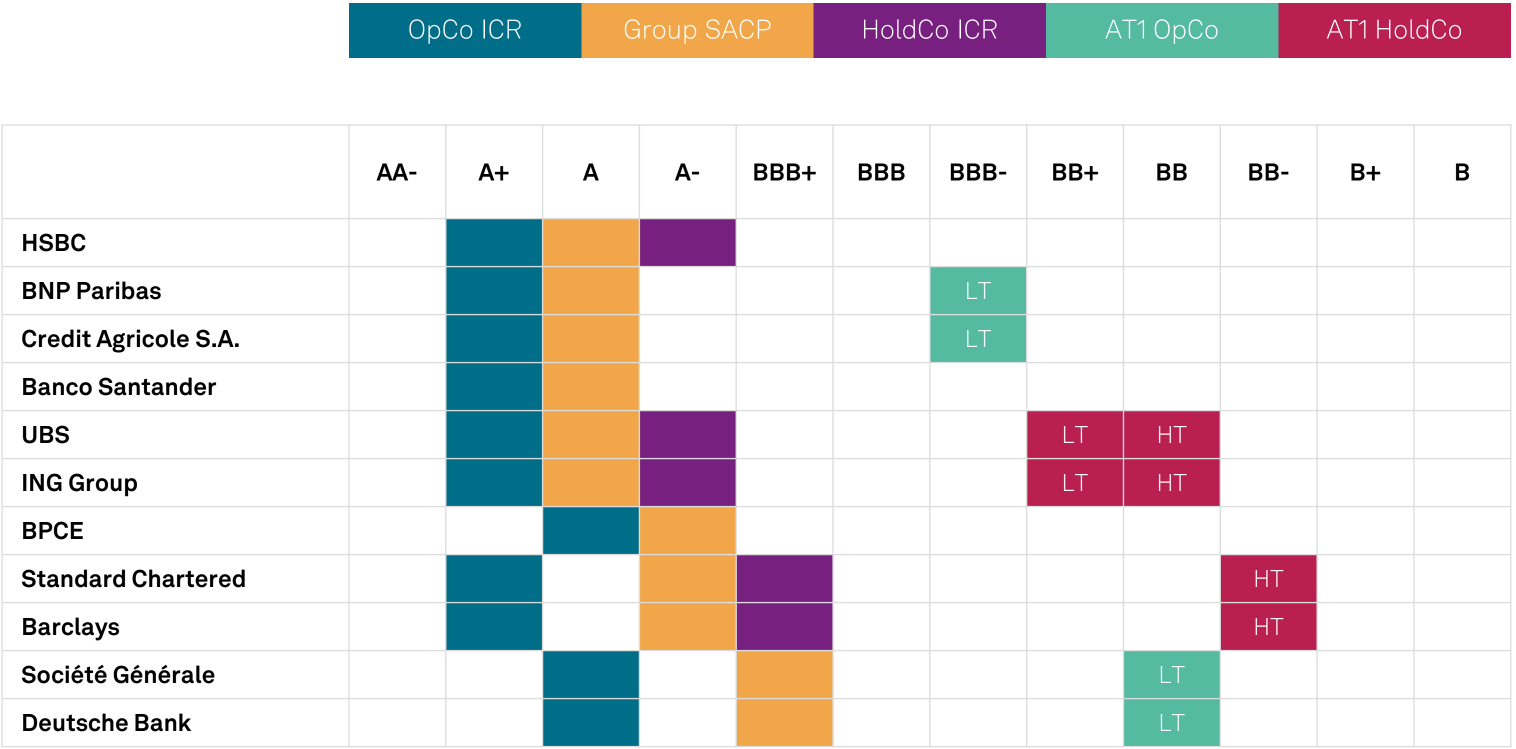
Outstanding volume of G-SIBs AT1 bonds by call date



Source: S&P Global Ratings.

- By the end of 2025, 30% of the outstanding volume of AT1 bonds may have to be replaced if G-SIBs decide to call the AT1 bonds at the next call date.
- Calling and refinancing AT1 instruments would come at an incremental cost for banks given the higher interest rate costs. They will likely weigh this cost against the need to retain long-term access to investors.
- Next call dates:
  - Barclays, June 15, 2024 (€1.8 billion)
  - Santander, June 24, 2024 (€0.6 billion)
  - UBS, Aug. 27, 2024 (€0.4 billion)

AT1 Market | Ratings Reflect Incremental Risk Compared To More Senior Issuances



- Our ratings on AT1 issuances reflect the incremental risk of possible write-downs or equity conversions of AT1s, with most ratings in the ‘BB’ category.
- Among European G-SIBs, only BNP Paribas and Credit Agricole S.A. have outstanding AT1 instruments (at the operating company) with investment-grade ratings.

AT1--Additional tier 1. HoldCo--Holding company. HT--High trigger. ICR--Issuer credit rating. LT--Low trigger. OpCo--Operating company. SACP--Stand-alone credit profile. Source: S&P Global Ratings.

EU G-SIBs: What To Make Of Their New Green Asset Ratios?

Increased transparency, but limited comparability

Green Asset Ratios Of EU Banks: What To Make Of Them?

Increased transparency is welcome, but meaningful comparisons will only be possible over time

More details in this research >>

- **The green asset ratio (GAR) is a positive step toward greater transparency**, may encourage growth of sustainable bank financing, and could enhance banks' standing among certain stakeholders.
- **The design of the GARs appears to particularly penalize certain banks** due to their business models or asset allocation:
  - Banks with significant non-EU nonfinancial corporate (NFC) exposures and/or SME exposures are likely to report relatively lower GARs, given that these assets are excluded from the GAR numerator (but included in the denominator).
  - Beyond that, the lack of harmonization on energy performance certificates (EPC) labeling of mortgages is likely causing significant differences across banks' reported GARs.
- **Over time, several legislative changes should address these challenges and make GARs gradually more comparable:**
  - A broader scope of EU NFCs will be subject to the upcoming Corporate Sustainability Reporting Directive (from 2026), meaning that fewer SMEs should be excluded from the GAR numerator.
  - The proposed revision of the Energy Performance of Buildings Directive (EPBD) could bring more comparability across national EPC labels, and therefore enhance GAR comparability.
- **Beyond GAR, EU banks also report additional, complementary information** on their climate-related risks. They also face increased supervisory scrutiny following the EBA's proposed "Guidelines on the management of ESG risks". GAR ratios are therefore only part of the story.

Understanding The GAR

EU banks are disclosing their GARs for the first time in 2024

Assets excluded from GAR calculation

Exposures to:
- Sovereign
- Central banks
- Supranationals

Trading book

Off-balance sheet exposures

Total GAR assets (included in GAR calculation)

Exposures included in numerator (and denominator)
- Financial institutions (loans and advances, debt securities, and equity instruments)
- EU NFCs subject to NFRD
- Households (mortgages, building renovation loans, motor vehicle loans)
- Local governments (RRE and CRE, other government financing)

Exposures excluded from numerator
- EU NFCs not subject to NFRD (e.g., SMEs)
- Non-EU NFCs (not subject to NFRD)
- Derivatives
- Cash and cash equivalents
- On-demand interbank loans
- Goodwill and commodities

Eligible as per EU taxonomy

Aligned with the EU taxonomy

Not aligned with the EU taxonomy

Non-eligible as per EU taxonomy

GAR

Numerator: **Aligned assets**

÷

Denominator: **Total GAR assets**

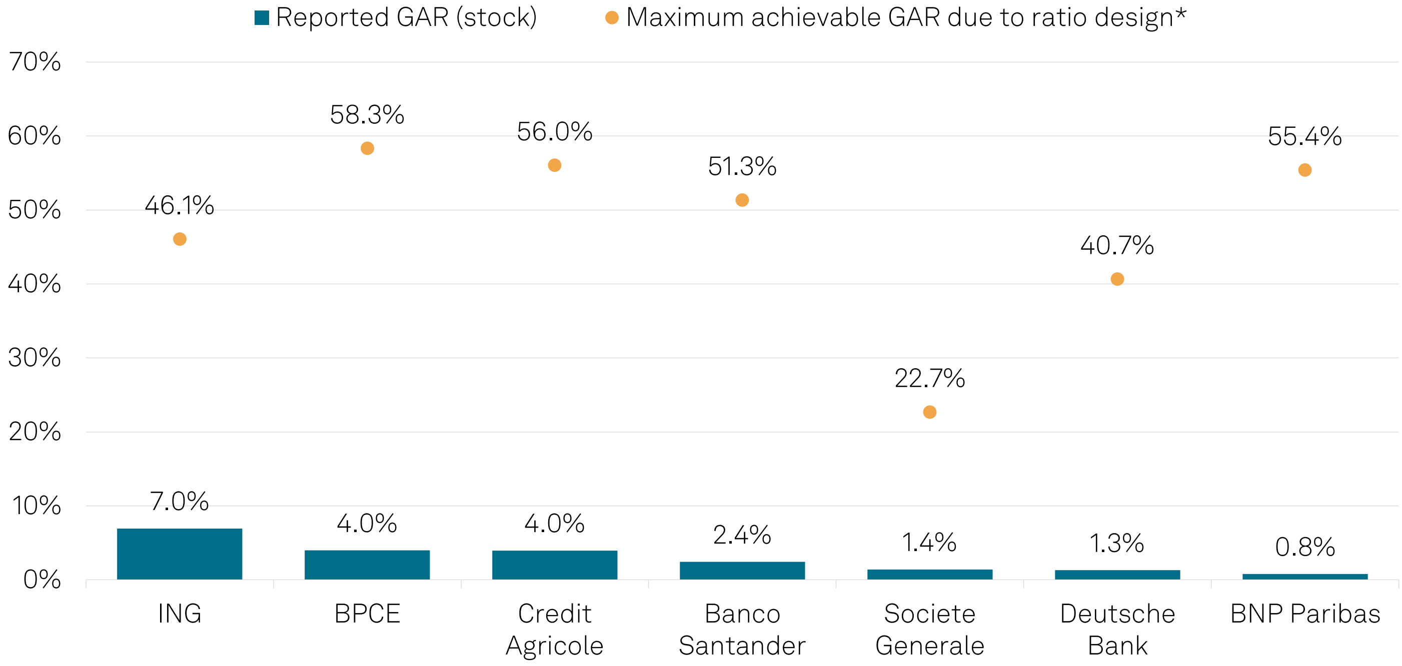
GARs can be expressed in stock or in flows (i.e. on assets originated during the year). We focus on the GAR stocks in the rest of this presentation.

NFC--Nonfinancial corporate. NFRD--Nonfinancial reporting directive. SME--Small and midsize enterprises. Source: S&P Global Ratings.

EU G-SIBs Have Reported Relatively Low GARs, With Differences

GAR levels are likely impacted by the ratio design and by differences in national EPC labeling

Reported GARs by EU G-SIBs, as of December 2023

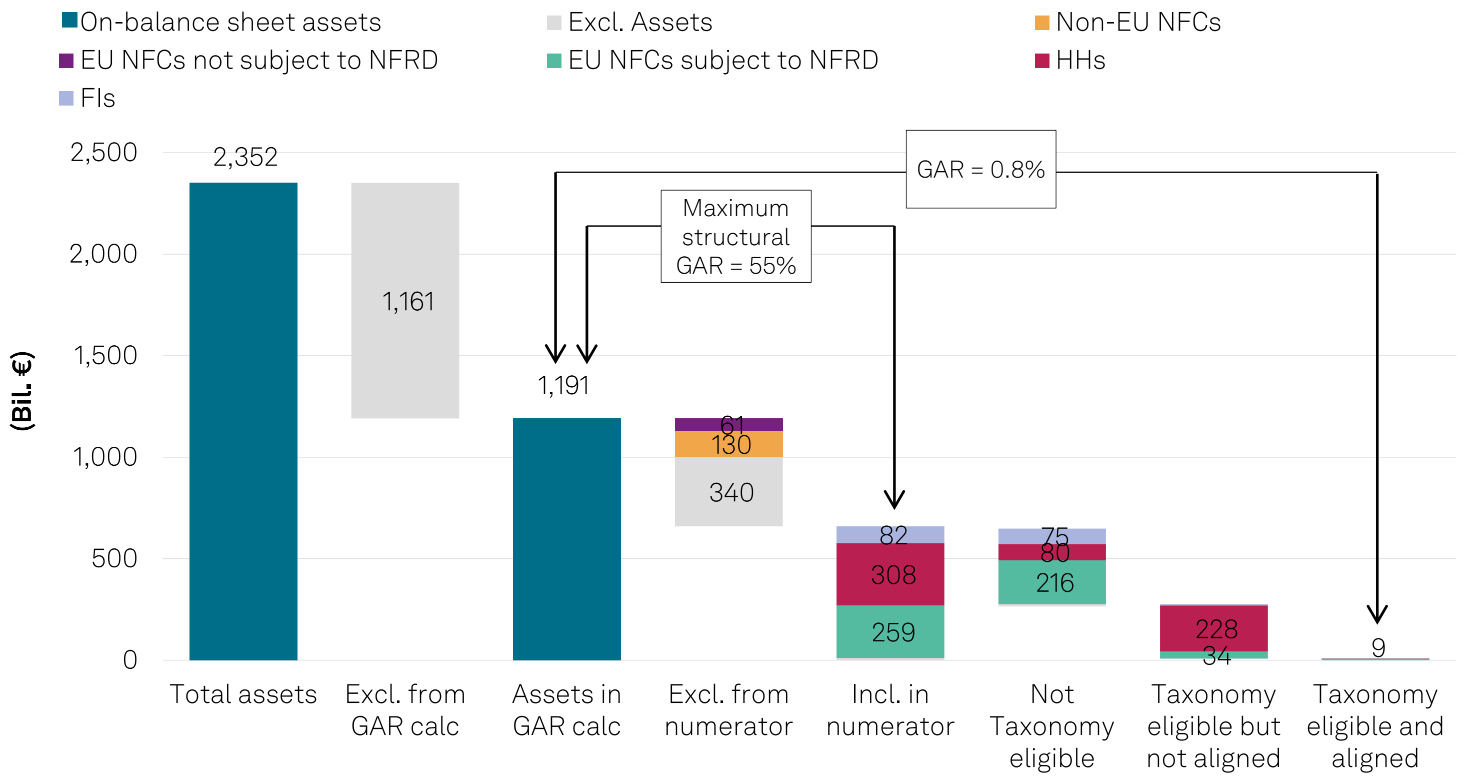


*Defined as the share of assets included in the GAR numerator relative to all GAR assets. Source: Bank disclosures, S&P Global Ratings.

- **By design, each bank can only achieve a certain GAR level** due its asset composition – because certain financial assets are excluded from the GAR numerator but not from its denominator.
  - This maximum achievable GAR is particularly low for some G-SIBs (SocGen or DB) due to significant exposures to NFCs not subject to the nonfinancial reporting directive (NFRD), but also other assets (goodwill and commodities).
- **A key driver of differences are household exposures.** A large portion (60 to 100%) of household exposures are reported as eligible to the EU Taxonomy by the G-SIBs. However, reported alignment levels in these portfolios vary from 0% to 16%, depending on the availability of EPCs for mortgages and national measurement scales.
  - Banks reporting the highest GARs (ING and BPCE) have large household exposures and relatively high EPC-coverages of 60%-70%.
- **NFC exposures:** A smaller portion is reported as eligible by G-SIBs (16%-42%), but alignment levels are higher than for household exposures (20%-40%) in these portfolios. The picture is more homogenous across banks in this NFC portfolio.

Understanding The Main Drivers Of GAR Results – BNPP

GAR calculation – BNP Paribas as of December 2023



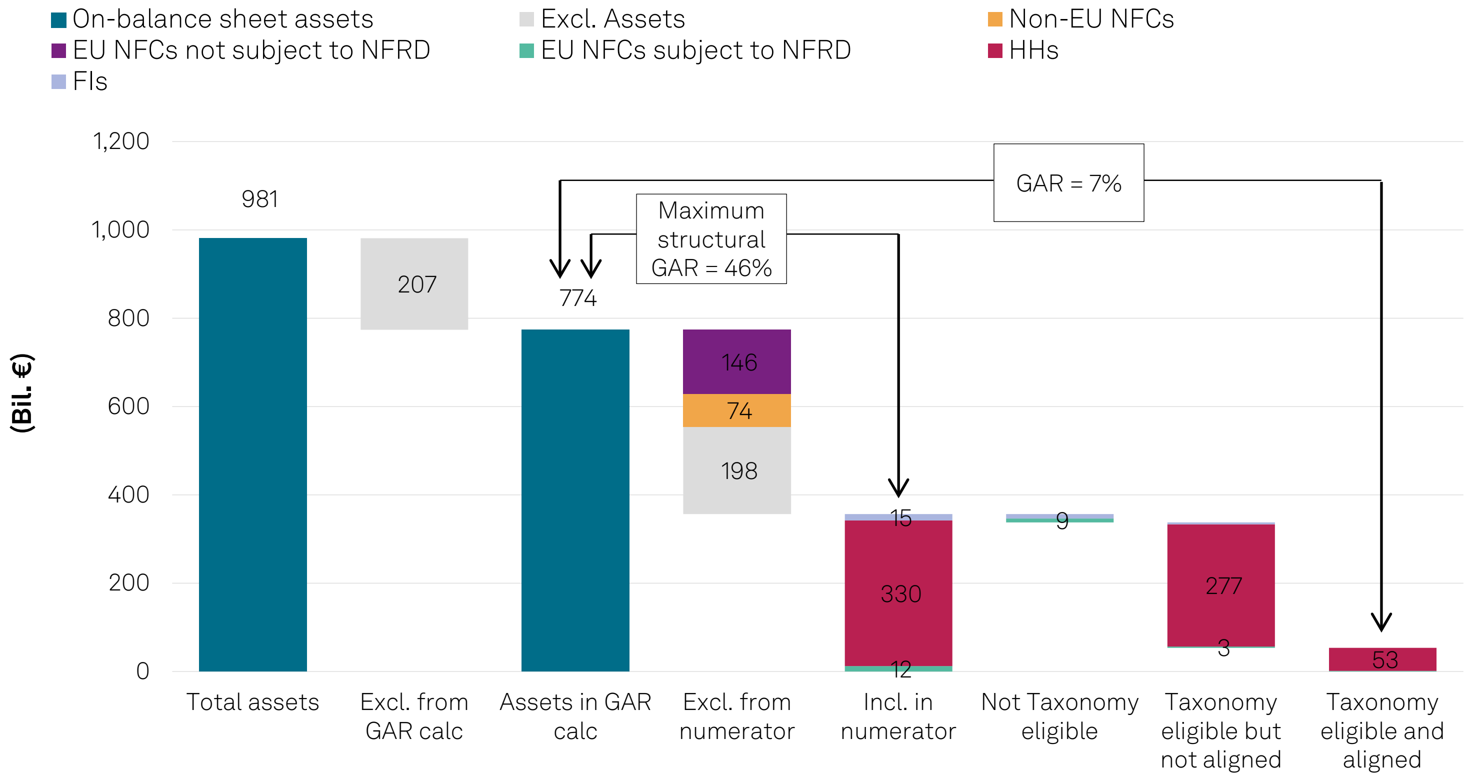
- **Household exposures:** the majority are taxonomy eligible, but BNPP reports that none of these exposures are taxonomy aligned. This could be due to the low EPC coverage for mortgages (12%) achieved by BNPP.
- **NFC exposures:** largely not taxonomy eligible (only 16%) and, of these, only a small portion is aligned (21%). Both these metrics are at the lower end of other EU G-SIBs' disclosures.
- Together, these two factors explain that BNPP reported the lowest GAR in the peer group, at 0.8%.

BNPP	Eligibility ratio[1]	Alignment ratio[2]
Households	74%	0%
EU NFCs subject to NFRD	16%	21%
Financial institutions	8%	0%

[1]Eligibility ratio = taxonomy-eligible assets/assets included in the GAR numerator. [2]Alignment ratio = Taxonomy-aligned assets/taxonomy-eligible assets. NFC--Nonfinancial corporate. HH--Household. NFRD--Nonfinancial reporting directive Sources: Bank disclosures, S&P Global Ratings.

Understanding The Main Drivers Of GAR Results – ING

GAR calculation– ING as of December 2023



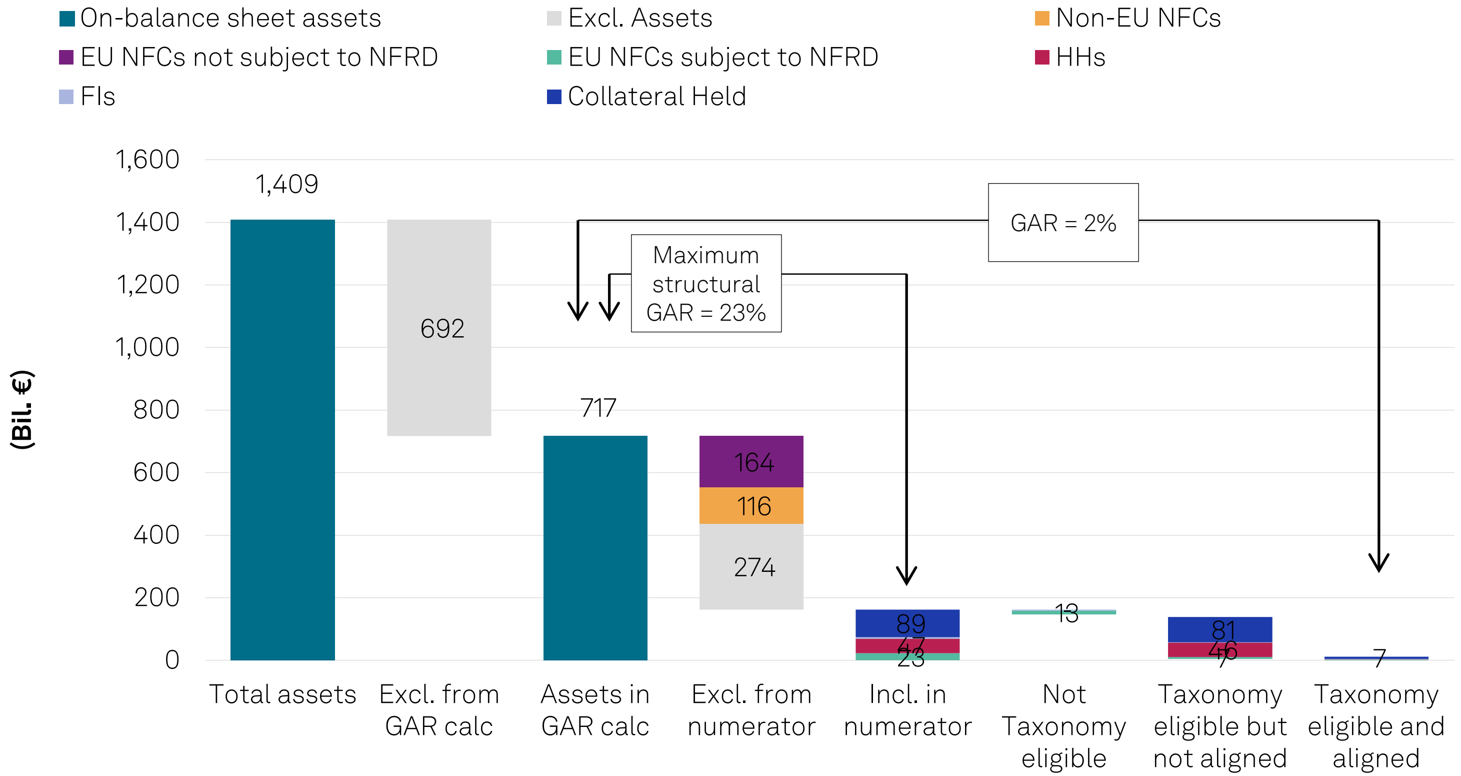
- **Household exposures** are reported as fully eligible with a meaningful portion of aligned (16%). This is at the high end of the peer group studied here and largely explains why ING reported the highest GAR.
    - The relatively higher eligibility and alignment ratios for household exposures could, in turn, stem from ING's relatively high EPC coverage (67%).
- **Exposures to NFCs:** Most of ING's EU NFC exposures are not subject to NFRD and are excluded from the numerator. For those subject to NFRD, ING's disclosures are in the middle of the peer group.

ING	Eligibility ratio[1]	Alignment ratio[2]
Households	100%	16%
EU NFCs subject to NFRD	30%	29%
Financial institutions	30%	0%

[1]Eligibility ratio = taxonomy-eligible assets/assets included in the GAR numerator. [2]Alignment ratio = Taxonomy-aligned assets/taxonomy-eligible assets. NFC--Nonfinancial corporate. HH--Household. NFRD--Nonfinancial reporting directive Sources: Bank disclosures, Sources: Bank disclosures, S&P Global Ratings.

Understanding The Main Drivers Of GAR Results – SocGen

GAR calculation– SocGen as of December 2023



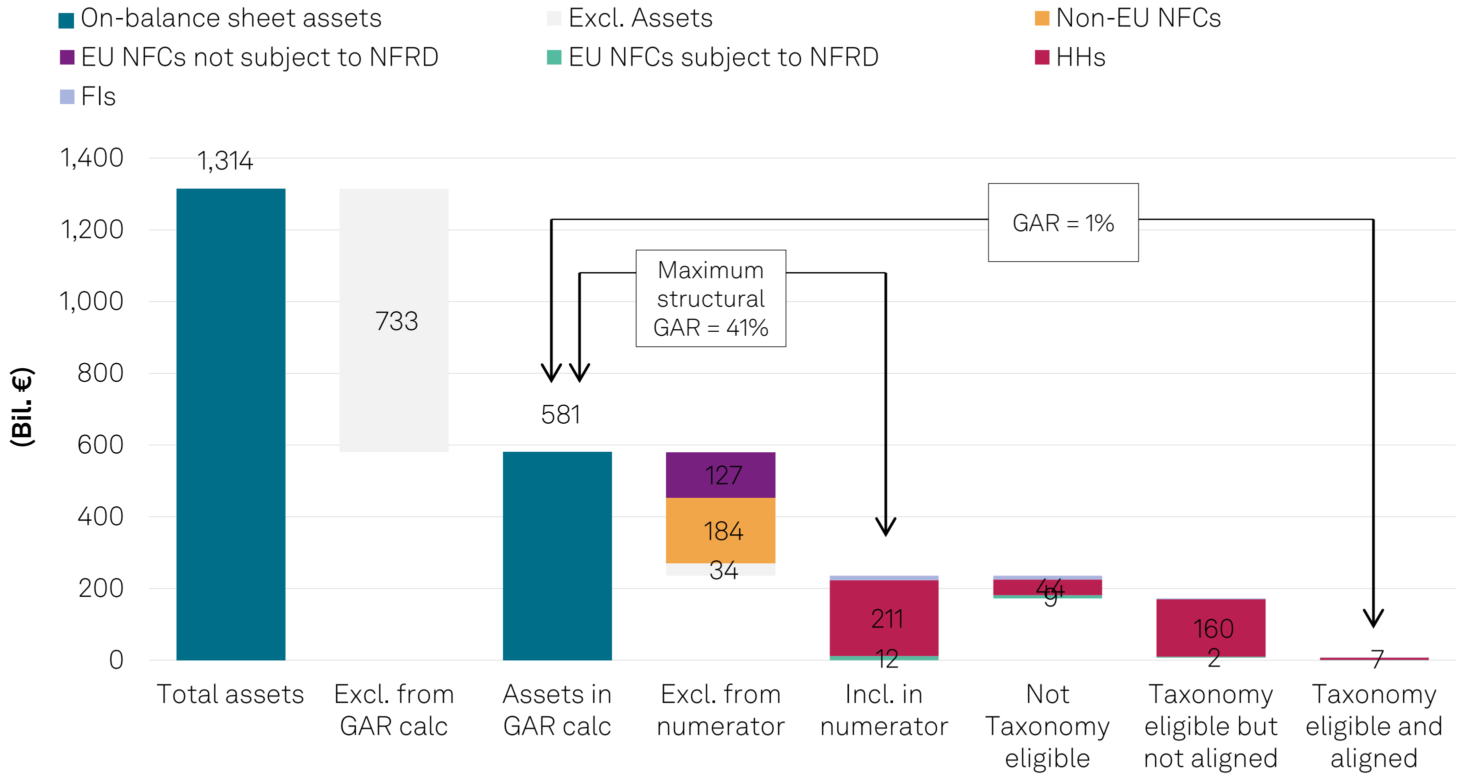
- **SocGen stands out for its particularly low maximum achievable GAR.** This is mainly due to the large exposures excluded from the GAR numerator, reflecting (EU or non-EU) NFC exposures not subject to NFRD and other assets (goodwill and commodities).
- **Household exposures:** Fully eligible, as for ING, but much lower alignment levels at only 3%. This could be due to the relatively low share of EPC collected on mortgages (9%).
- **Exposures to NFCs that are subject to NFRD:** Eligibility ratio is higher than peers, but alignment ratio is in line with the average.

ING	Eligibility ratio[1]	Alignment ratio[2]
Households	100%	3%
EU NFCs subject to NFRD	42%	26%
Financial institutions	26%	23%

[1]Eligibility ratio = taxonomy-eligible assets/assets included in the GAR numerator. [2]Alignment ratio = Taxonomy-aligned assets/taxonomy-eligible assets. NFC--Nonfinancial corporate. HH--Household. NFRD--Nonfinancial reporting directive Sources: Bank disclosures, Sources: Bank disclosures, S&P Global Ratings.

Understanding The Main Drivers Of GAR Results – DB

GAR calculation– DB as of December 2023



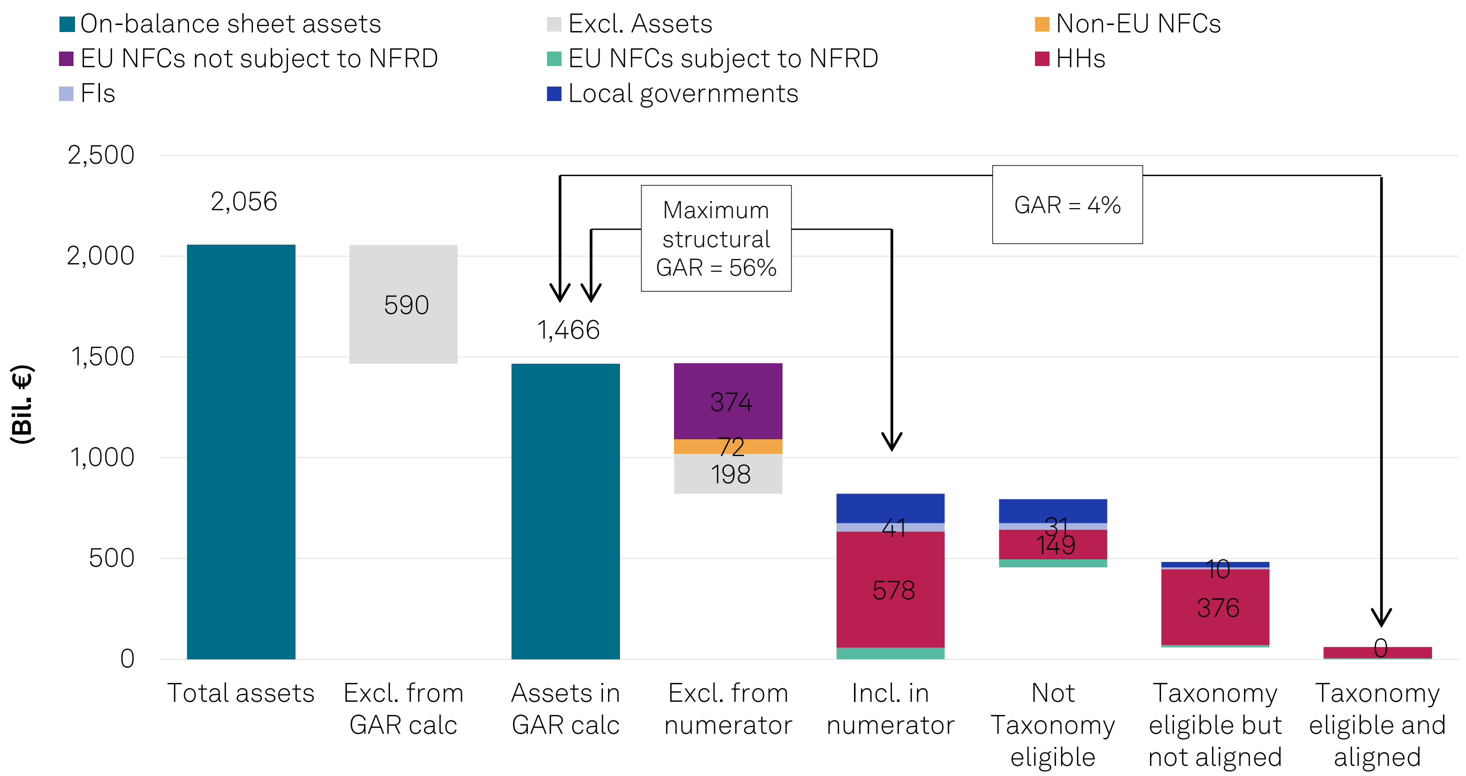
- **Like SocGen, DB has a relatively low maximum achievable GAR**, largely due to its large exposures to non-EU NFCs and EU NFCs not subject to the NFRD (such as SMEs). This is a feature of the bank's business model and asset allocation.
- For the portfolios included in the GAR numerator, the eligibility and alignments levels are broad in the middle of the range report by other EU G-SIBs (very low on household exposures, more meaningful on NFC exposures).

ING	Eligibility ratio[1]	Alignment ratio[2]
Households	79%	4%
EU NFCs subject to NFRD	26%	27%
Financial institutions	18%	3%

[1]Eligibility ratio = taxonomy-eligible assets/assets included in the GAR numerator. [2]Alignment ratio = Taxonomy-aligned assets/taxonomy-eligible assets. NFC--Nonfinancial corporate. HH--Household. NFRD--Nonfinancial reporting directive
Sources: Bank disclosures, Sources: Bank disclosures, S&P Global Ratings.

Understanding The Main Drivers Of GAR Results – Groupe Credit Agricole

GAR calculation– Group Credit Agricole as of December 2023



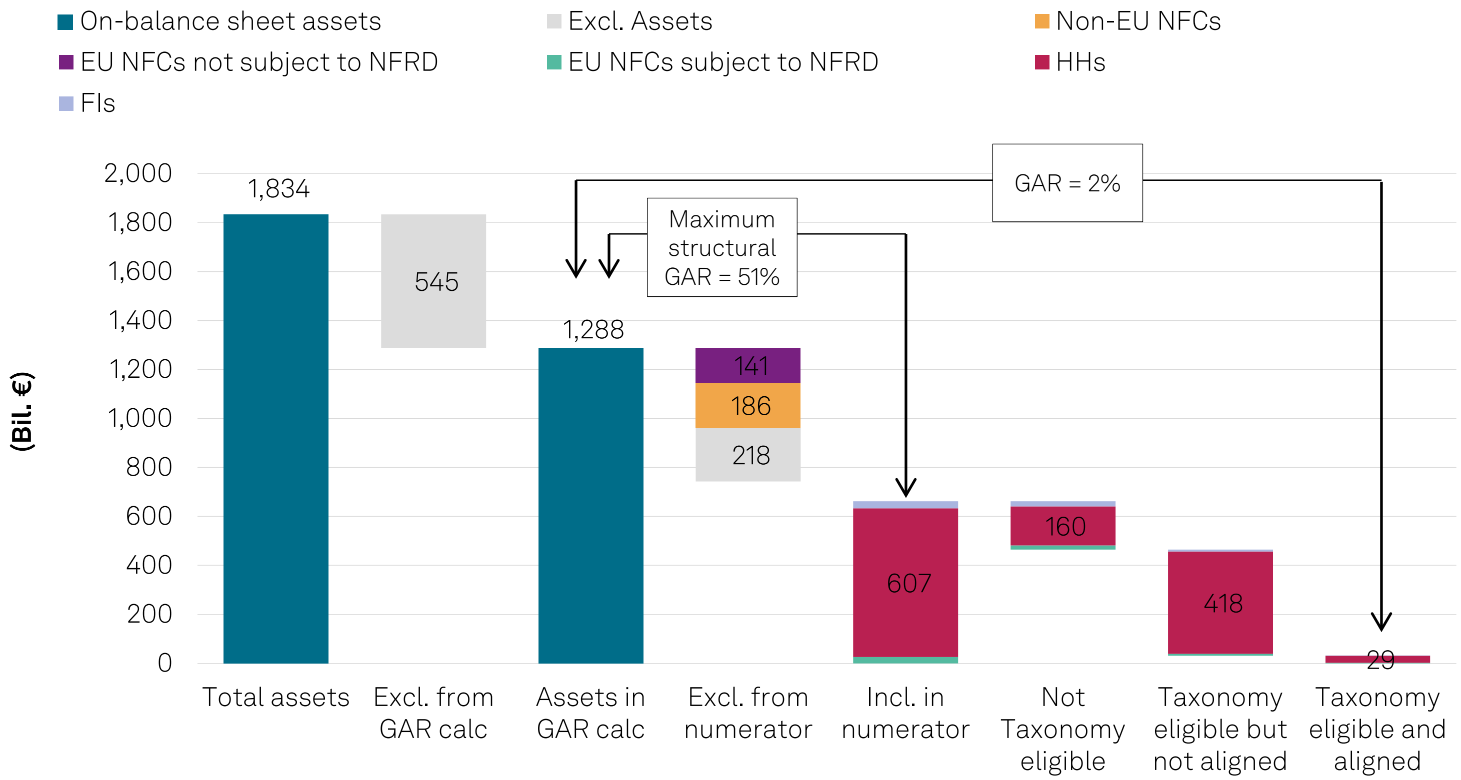
- **Household exposures:** GCA reported a relatively lower share of taxonomy-eligible exposures compared to other G-SIBs, but a relatively good alignment level at 12%.
  - Overall, given the importance of the household portfolio, Groupe Credit Agricole achieves a relatively high GAR in this peer group (4%).
- **NFC exposures:** reported information is in line with other EU G-SIB peers.

ING	Eligibility ratio[1]	Alignment ratio[2]
Households	74%	12%
EU NFCs subject to NFRD	30%	30%
Financial institutions	24%	3%

[1]Eligibility ratio = taxonomy-eligible assets/assets included in the GAR numerator. [2]Alignment ratio = Taxonomy-aligned assets/taxonomy-eligible assets. NFC--Nonfinancial corporate. HH--Household. NFRD--Nonfinancial reporting directive Sources: Bank disclosures, Sources: Bank disclosures, S&P Global Ratings.

Understanding The Main Drivers Of GAR Results – Santander

GAR calculation– Gruppo Santander as of December 2023



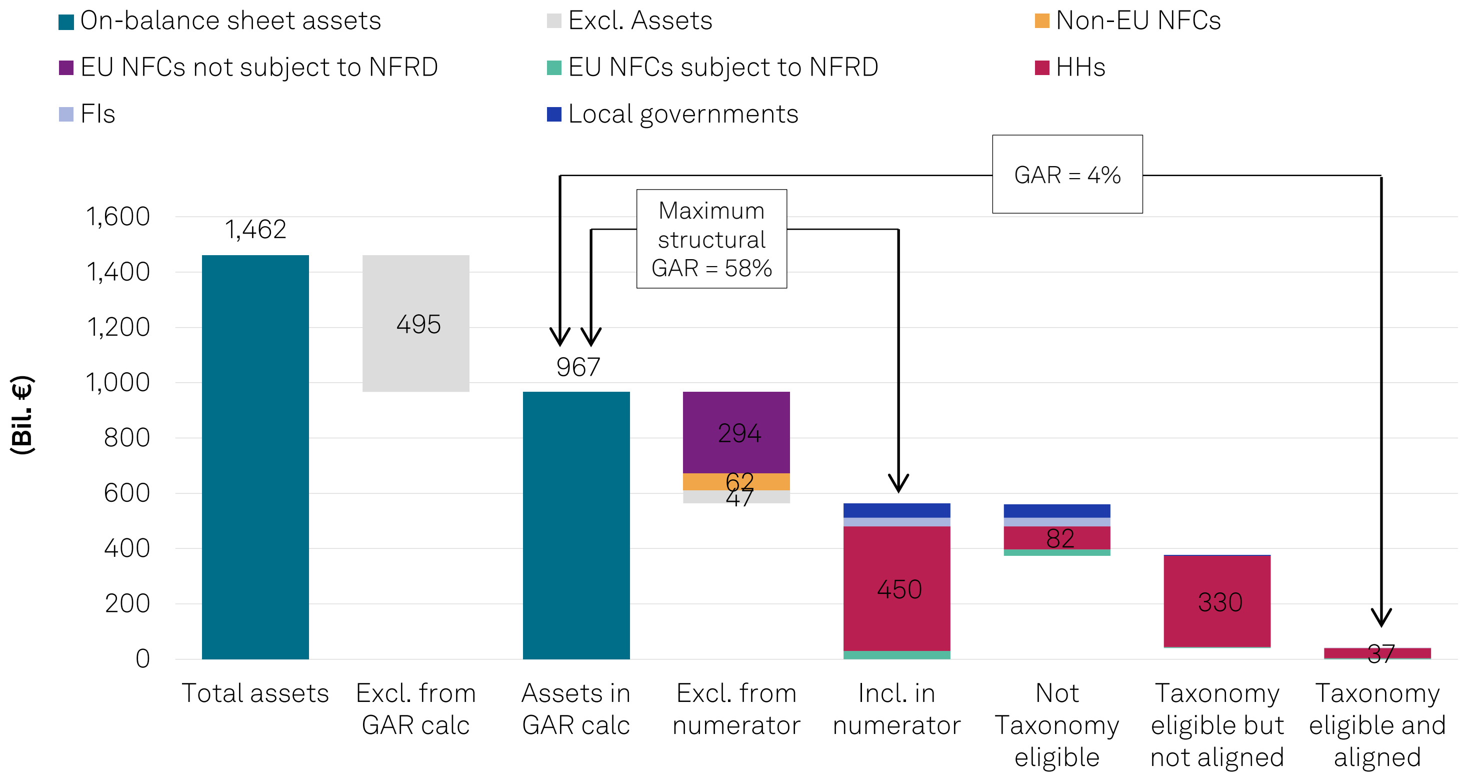
- **Santander's GAR ratio comes out in the middle of the EU G-SIB peer group, at 2%.**
- On the two main portfolios (household and NFC loans), its reported eligibility and alignment levels are also in the middle of the ranges reported by EU G-SIBs.
- Santander has a significant business presence outside of the EU, but this is largely in the form of retail exposures--which are included in the GAR numerator. In contrast to DB or SocGen that have large NFC exposures outside the EU (which are excluded from the GAR numerator), **Santander is not overly penalized by the design of the GAR.**

ING	Eligibility ratio[1]	Alignment ratio[2]
Households	74%	7%
EU NFCs subject to NFRD	35%	19%
Financial institutions	29%	4%

[1]Eligibility ratio = taxonomy-eligible assets/assets included in the GAR numerator. [2]Alignment ratio = Taxonomy-aligned assets/taxonomy-eligible assets. NFC--Nonfinancial corporate. HH--Household. NFRD--Nonfinancial reporting directive Sources: Bank disclosures, Sources: Bank disclosures, S&P Global Ratings.

Understanding The Main Drivers Of GAR Results – BPCE

GAR calculation – BPCE as of December 2023



- **Household exposures:** These are relatively important for BPCE, and with high levels of eligibility and alignment. This in turn can be in part explained by the relatively substantial level of mortgages with an EPC (58%).
- **NFC exposures:** BPCE stands out for a relatively high level of alignment in its portfolio of NFCs subject to the NFRD (43%).
- Together, these two factors explain why BPCE achieves a relatively high GAR ratio (4%).

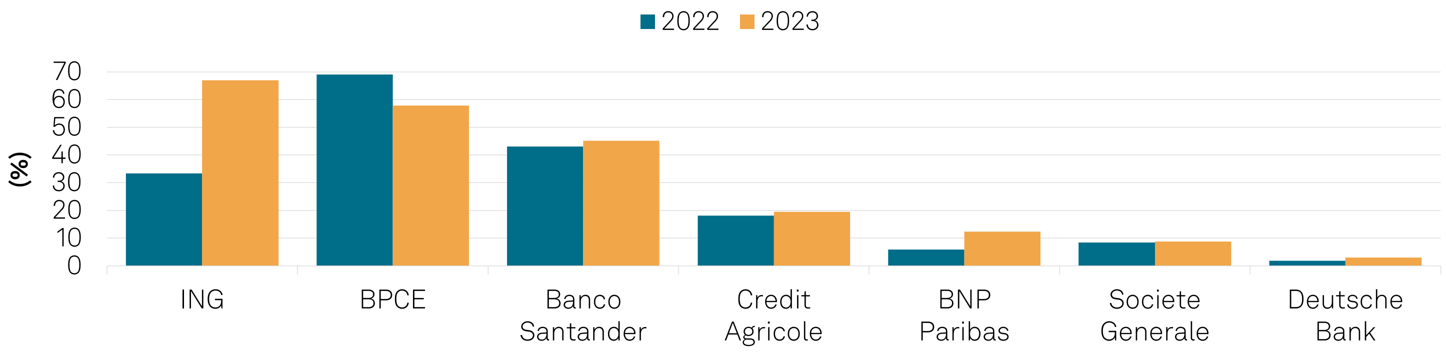
ING	Eligibility ratio[1]	Alignment ratio[2]
Households	82%	10%
EU NFCs subject to NFRD	21%	43%
Financial institutions	0%	N/A

[1]Eligibility ratio = taxonomy-eligible assets/assets included in the GAR numerator. [2]Alignment ratio = Taxonomy-aligned assets/taxonomy-eligible assets. N/A--Not applicable. NFC--Nonfinancial corporate. HH--Household. NFRD--Nonfinancial reporting directive Sources: Bank disclosures, Sources: Bank disclosures, S&P Global Ratings.

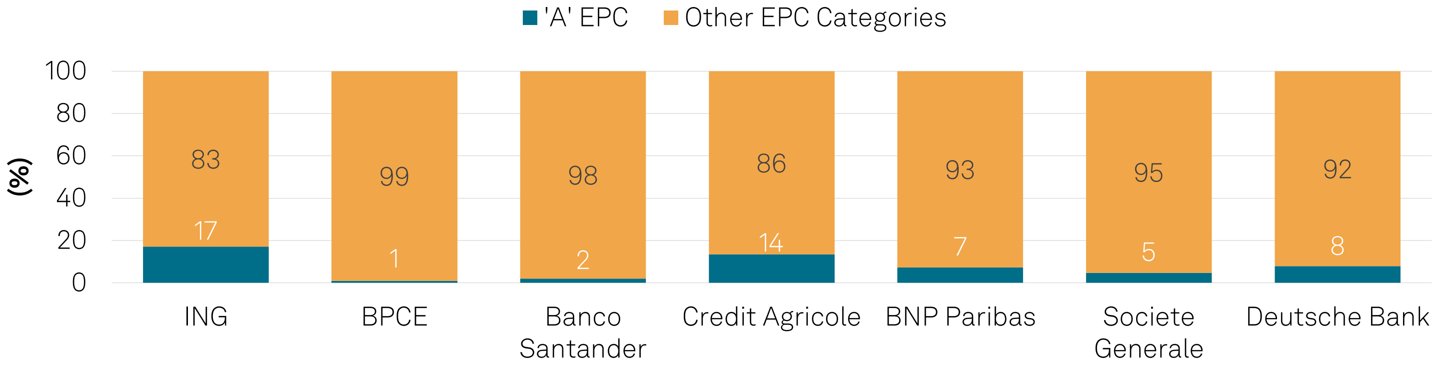
EPC Labeling Of Mortgages As A Key Differentiator In GAR Results

More details in this research >>

Share of mortgages with an EPC label



Share of 'A' EPC labels as of year-end 2023



Source: Banks' disclosures, S&P Global Ratings.

- According to the EU Taxonomy technical screening criteria, a building (built before 2021) is considered as taxonomy-aligned if it has an EPC of at least class 'A' or, alternatively, it is within the top 15% of its national or regional building stock.
  - **For banks, obtaining EPC certificates is key to determine alignment**, and some banks (ING and BPCE) are more advanced than their peers in this regard.
- EPCs are defined in the EPBD but leaves actual implementation to member states. As such, **comparisons between EPC levels are difficult.**
  - For instance, Dutch 'A' labels roughly correspond to French 'C' labels in terms of primary fossil fuel use. This difference is likely to also explain some of the GAR variations between French and Dutch banks, for instance.

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Related Research

Credit research

- Your Three Minutes In Climate Disclosure: Benefits And Limitations Of The Green Asset Ratio For EU Banks, April 11, 2024
- Your Three Minutes In Banking: European Banks' Earnings Top Equity Costs, For Now, March 19, 2024
- CreditWeek: What Have We Learned In The Year Since SVB Triggered Turmoil In The Banking Sector?, March 14, 2024
- How Our Bank Ratings Consider Interest Rate Risk In The Banking Book, March 14, 2024
- Ten Takeaways From The Big European Bank Giveaway, March 14, 2024
- Your Three Minutes In Banking: BCBS Calls Time On G-SIB Window Dressing, March 13, 2024
- U.K. Proposal Would Unlock Resolution Funding For Small Banks, March 5, 2024
- U.S. GSIBs Q4 2023 Update: A Tough Year Weathered As New Challenges Await, Feb. 29, 2024
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- U.S. Bank Outlook 2024: Facing A Slower Economy, Tighter Regulation, And A Potential Drop In Rates, Jan. 11, 2024
- EU Banking Package: Inconsistencies Temper Framework Improvements, Jan. 9, 2024

Previous European G-SIB monitor publication

- European G-SIBs Monitor H2 2023: Rising Rates Don't Float All Boats, Sept. 20, 2023

Latest full analyses on G-SIBs

- The Goldman Sachs Group Inc., Apr. 23, 2024
- Citigroup Inc., Apr. 9, 2024
- UBS Group AG, Mar. 6, 2024
- ING Groep N.V., Jan. 31, 2024
- BPCE, Jan. 18, 2024
- Wells Fargo & Co. , Dec. 18, 2023
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- Toronto-Dominion Bank, Dec. 14, 2023
- Deutsche Bank AG, Dec. 12, 2023
- HSBC Holdings PLC, Dec. 11, 2023
- Morgan Stanley, Dec. 7, 2023
- JPMorgan Chase & Co., Dec. 6, 2023
- Crédit Agricole S.A., Dec. 1, 2023
- Bank of America Corp., Nov. 29, 2023
- Banco Santander S.A., Oct. 10, 2023
- Standard Chartered PLC; (Holding Co.), Sept. 19, 2023
- Société Générale, July 31, 2023
- BNP Paribas, May 17, 2023

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