European G-SIBs Pulse Report

Profitability, balance sheet resilience and CO2 footprint analysis of the top European Banks

April 2021

ALVAREZ & MARSAL

Key takeaways: G-SIBs aggregated view

	Metric	2019Y	Vs	2020Y	Score 2020Y
Growth	Loans and Advances Growth (YoY)	5.3%	↓	-1.5%	2.2
	Deposits Growth (YoY)	5.0%	↑	6.4%	
Liquidity	Loan-to-Deposit Ratio	98.3%	↓	91.0%	1.3
Income & Operating Efficiency	Yield on Credit (YTD)	4.43%	↓	3.60%	3.2
	Cost of Funds (YTD)	1.18%	↓	0.77%	
	Net Interest Margin (YTD)	1.21%	↓	1.07%	
	Non-Interest Income / Operating Income (YTD)	45.0%	↗	45.2%	
	Operating Income (YTD) / Assets	2.2%	↓	1.9%	
	Operating Revenue Growth (YoY)	2.0%	↓	-5.9%	
	Cost-to-Income Ratio (YoY)	64.6%	↗	64.7%	
	Business Volume per Branch (€Mn)	233	↑	246	
Risk	NPL ratio	2.84%	↗	2.93%	1.4
	NPL Coverage Ratio	68.9%	↗	72.2%	
	Cost of Risk (YTD)	0.39%	↑	0.70%	
Profitability	RoE (YTD)	5.40%	↓	1.82%	3.8
	RoA (YTD)	0.33%	↓	0.11%	
	RoRWA (YTD)	1.01%	↓	0.35%	
Capital	CET1 Ratio FL	13.5%	↑	14.2%	2.4
	Leverage ratio (%)	5.0%	↑	5.2%	
				Total score	2.4

Key trends this year

1. L&A decreased this year by 1.5% driven by households' loans drop, deposits grew at a 6.4% pace
2. NIM decreased slightly to 1.07%, driven by yield on credit decrease despite cost of funds decrease
3. Operating income margin also decreased driven by lower NIM and fees & commissions
4. C/I ratio stable close to 65% as a result of the lower income and lower costs
5. NPL ratio slightly increased. CoR increases as well to 70 bps (x1.8)
6. RoE and other profitability ratios show a significant decrease due to the increased provisioning for loan losses
7. CET1 fully loaded ratio increased 71 bps to 14.2% driven by the dividend restrictions and a decrease in RWA

Scoring range from 1 (Best) to 4 (Worst) 1 2 3 4

Variation compared to 2019Y ↓↑ Var. > + 5% ↗ 0% < Var. < +5% ↘ 0% > Var. > -5%

Note: YoY and YTD stand for year over year and year to date respectively
Source: Financial statements, Investor presentations, A&M analysis

A&M Scorecard broken down per top 10+1 G-SIBs

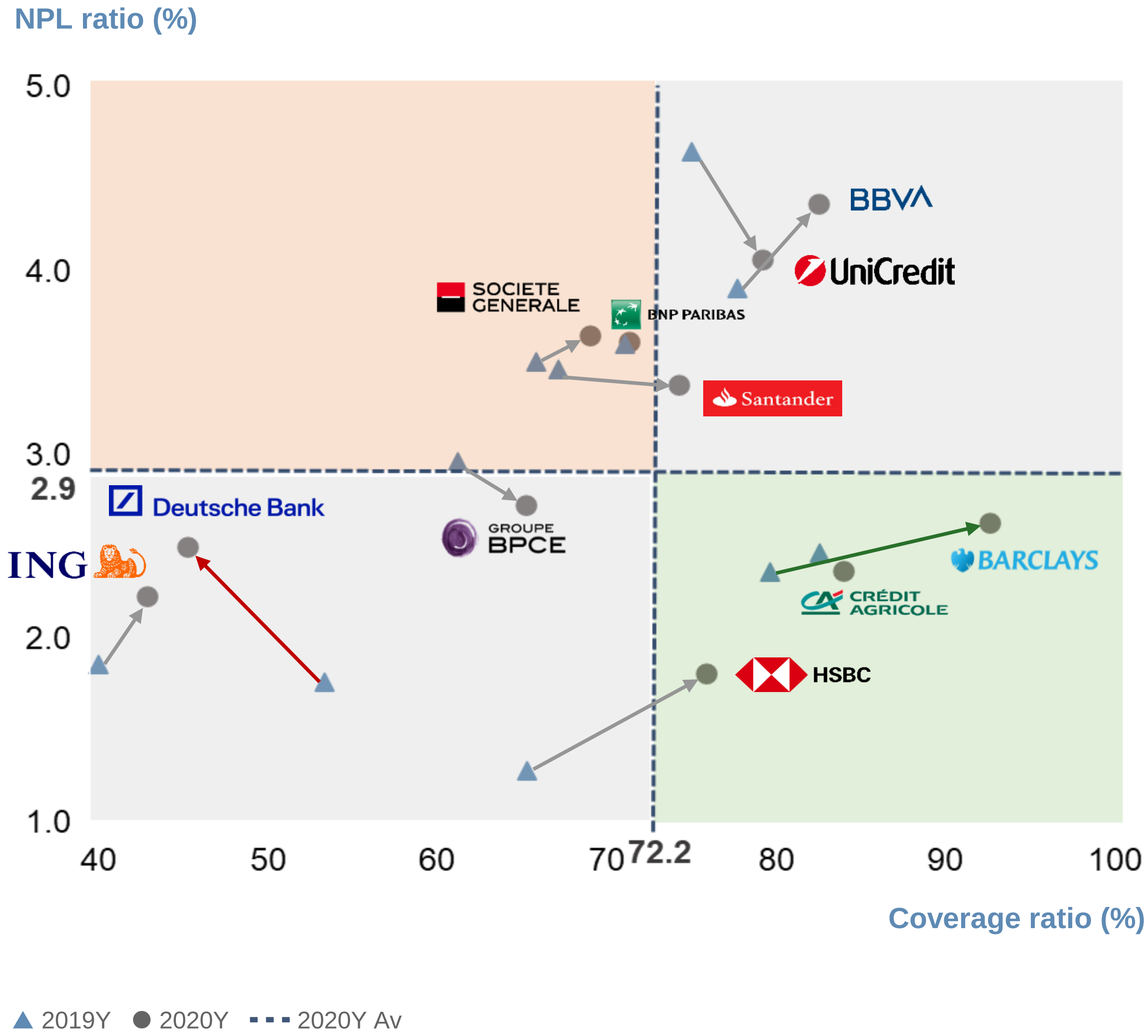
	2020Y	BNP PARIBAS	HSBC	CRÉDIT AGRICOLE	Santander	BARCLAYS	SOCIETE GENERALE	GROUPE BPCE	Deutsche Bank	ING	UniCredit	BBVA
Growth	Loans and Advances Growth (YoY)	0.5%	-7.6%	5.6%	-2.6%	-3.7%	-0.1%	7.7%	-0.3%	-2.0%	-3.9%	-17.7%
Growth	Deposits Growth (YoY)	12.7%	4.8%	12.4%	3.0%	7.8%	8.9%	12.7%	-0.6%	6.2%	5.6%	-10.6%
Growth	Score	2.0	2.8	1.2	2.8	2.5	2.2	1.0	3.3	2.3	2.7	4.0
Liquidity	LCR	135.2%	139.1%	149.0%	162.0%	162.1%	159.5%	156.1%	166.4%	137.0%	171.6%	147.0%
Liquidity	Loan-to-Deposit Ratio (LDR)	88.3%	62.9%	100.8%	110.7%	70.5%	100.9%	120.5%	86.5%	87.3%	102.6%	95.1%
Liquidity	Score	1.3	1.2	1.5	1.5	1.0	1.5	1.7	1.0	1.3	1.5	1.3
Income & Operating Efficiency	Net Interest Margin (NIM)	0.9%	1.0%	0.9%	2.2%	0.6%	0.8%	0.7%	0.9%	1.5%	1.1%	2.1%
Income & Operating Efficiency	Operating Income / Assets	1.9%	1.9%	1.6%	2.9%	1.7%	1.6%	1.6%	1.8%	1.9%	1.9%	2.9%
Income & Operating Efficiency	Operating Revenue Growth (YoY)	-1.4%	-10.4%	1.0%	-11.9%	0.6%	-10.0%	-8.7%	3.7%	-2.1%	-17.8%	-4.0%
Income & Operating Efficiency	Traditional Cost-to-Income Ratio	66.6%	63.7%	64.1%	47.6%	59.6%	75.0%	74.2%	87.4%	58.7%	66.9%	43.1%
Income & Operating Efficiency	Conservative Cost-to-Income Ratio	66.6%	63.7%	64.6%	52.9%	60.3%	76.4%	74.2%	87.4%	59.7%	67.8%	46.6%
Income & Operating Efficiency	Business Volume per Branch (€ Mn)	313	586	177	159	906	178	178	486	640	296	93
Income & Operating Efficiency	Score	3.2	3.2	3.2	2.2	3.2	3.7	3.7	3.5	2.7	3.4	1.7
Risk	NPL ratio	3.6%	1.8%	2.4%	3.4%	2.6%	3.7%	2.7%	2.5%	2.2%	4.1%	4.4%
Risk	Coverage Ratio	71.3%	75.9%	84.0%	74.3%	92.6%	69.0%	65.2%	45.3%	42.8%	79.2%	82.5%
Risk	Score	1.7	1.2	1.4	1.7	1.4	1.8	1.6	2.0	2.1	1.7	1.7
Profitability	Return on Equity (RoE)	6.5%	3.2%	4.2%	-7.6%	3.6%	0.3%	2.2%	1.0%	5.2%	-4.6%	3.9%
Profitability	Return on Assets (RoA)	0.3%	0.2%	0.2%	-0.5%	0.2%	0.0%	0.1%	0.0%	0.3%	-0.3%	0.3%
Profitability	Score	3.0	3.7	3.7	4.0	3.8	4.0	3.8	4.0	3.5	4.0	3.7
Capital	CET1 Ratio FL	12.6%	15.7%	16.9%	11.9%	14.3%	13.2%	16.0%	13.6%	14.0%	15.1%	11.7%
Capital	Leverage ratio	4.9%	5.4%	6.1%	5.2%	4.4%	4.7%	5.6%	4.8%	4.4%	6.0%	6.5%
Capital	Score	2.9	1.9	1.4	3.0	2.7	2.7	1.7	2.7	2.9	1.9	2.5
Total Score		2.4 →	2.2 →	2.1 →	2.6 ↑	2.4 →	2.7 →	2.3 →	2.7 →	2.6 ↑	2.4 ↑	2.4 ↑

Takeaways

- CA, HSBC and BPCE are the top performers this year and DB, SG, and SAN the worst
- All banks experience a deterioration of its score YoY. SAN deteriorated the most its score while BPCE shows a small improvement

Source: Financial statements, Investor presentations, A&M analysis

NPL coverage increased significantly in 2020

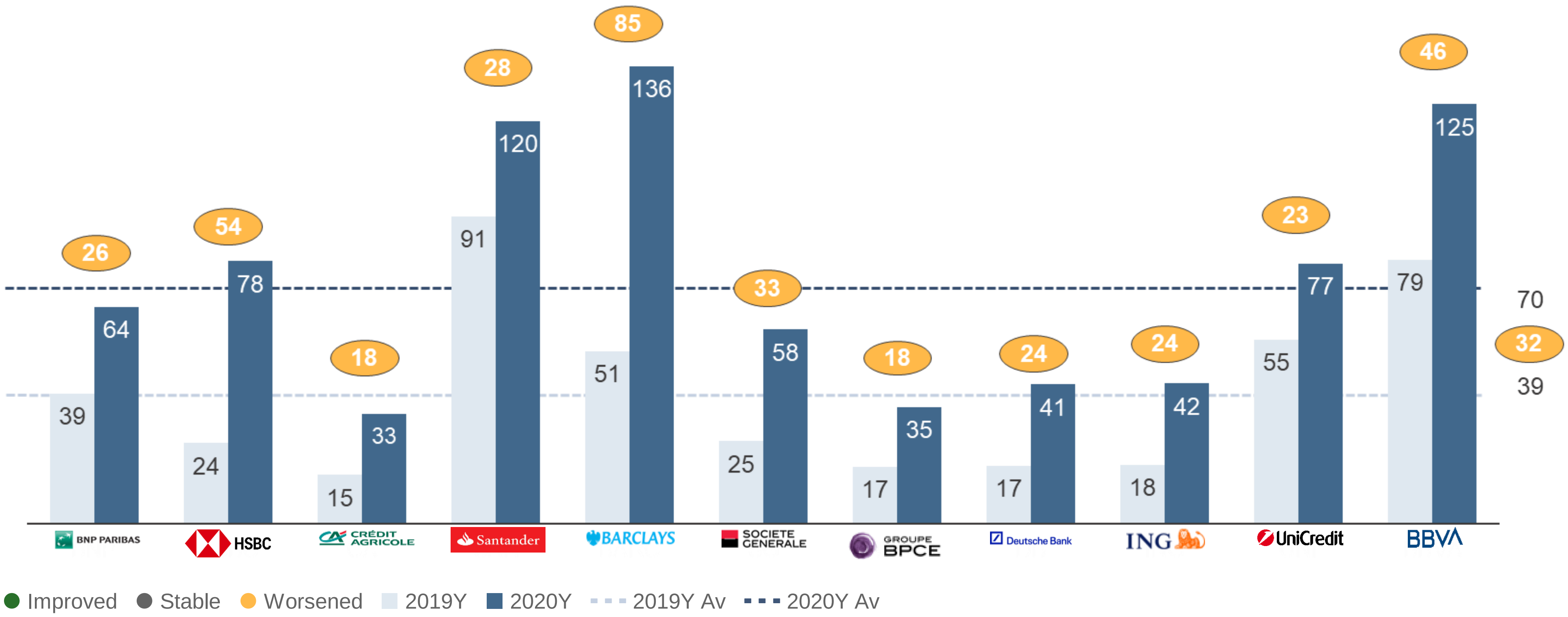


Takeaways

- Very diverse pattern in both coverage and NPL ratio across G-SIBs
- Overall NPL ratio is below 3% while coverage is above 70%
- BARC, CA and HSBC outperformed the market in both NPL and coverage ratio
- DB showed the sharpest increase in NPL ratio while BPCE the highest decrease
- BBVA and UNI have the highest NPL ratios, HSBC has the lowest
- Most of banks increased coverage ratio, with BARC and HSBC showing the biggest increase
- All banks are below the 5% NPL ratio set as a threshold by the EBA

G-SIBs showed an increase in CoR of 32 bps YoY

Cost of Risk (bps) – net of reversals



Note 1: Scaling and some numbers might not add up due to rounding
Source: Financial statements, Investor presentations, A&M analysis

Takeaways

- Diverse approach to CoR both in 2019 and 2020
- BARC recognised the highest increase by 85 bps, followed by HSBC and BBVA
- BARC is also the bank with highest CoR so far in 2020 (136 bps), followed by BBVA (125)
- CA and BPCE are the banks with the lowest CoR
- Average CoR increased 32 bps to 70 bps

And 2020 winners are …

Business Profitability

Operating Income / Assets (%)		Cost to Income (%)		Cost of Risk (%)		ROE (%)	
Santander		BBVA		CRÉDIT AGRICOLE		BNP PARIBAS	
2.9		46.6		0.3		6.5	
2nd	3rd	2nd	3rd	2nd	3rd	2nd	3rd
BBVA	ING	Santander	ING	GROUPE BPCE	Deutsche Bank	ING	CRÉDIT AGRICOLE

Balance Sheet Resilience

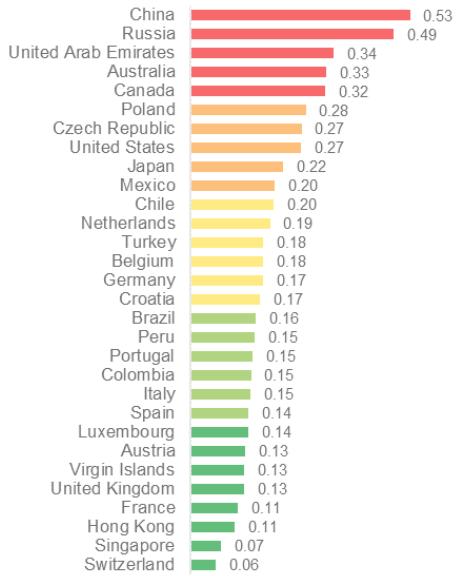
Business Volume Growth (%)		LCR (%)		NPL Ratio (%)		CET1 FL ratio (%)	
GROUPE BPCE		UniCredit		HSBC		CRÉDIT AGRICOLE	
9.3		172		1.8		16.9	
2nd	3rd	2nd	3rd	2nd	3rd	2nd	3rd
CRÉDIT AGRICOLE	BNP PARIBAS	Deutsche Bank	BARCLAYS	ING	CRÉDIT AGRICOLE	GROUPE BPCE	HSBC

A&M diagnosis for 2021

Topic	Rationale
Profitability	Banks continue with average returns below cost of capital which leads to valuations below their book values. Many banks have announced staff reductions accompanied by branch closures as the main tool to manage profitability, this trend will continue in 2021. On the other hand, operational risk and churning rate increases
Consolidation	After some movements in the market there is still room for additional consolidation. The structural and strategic lever of mergers and acquisitions continues to be a measure in the toolkit of banking executives and supervisors
Asset Quality	Following the increase in provisions in 2020, banks might experience some degree of provision release in 2021 as a result of the European public aid packages for corporates and SMEs and the lack of materialization of expected losses. Although NPLs levels might increase in some portfolios
Capital Level and Dividends	Solvency levels are solid, but this year will be tested (therefore additional supervisory focus on capital). Dividend distribution will return to the agenda by end of 2021
Regulation	After 2020 marked by regulatory flexibility, 2021 is likely to follow a similar trend to avoid hurdles to the economic recovery while supervisors will continue to examine closely banks risks, management and performance
Loan Growth	Additional credit and liquidity support to corporates and SMEs is expected for 2021, while debt restructuring measures will be needed in combination with public aid. Also housing and specially consumption segments are expected to recover from last year low, fueled by unprecedented levels of private savings
ESG	Carbon pledges and more specific ESG objectives are top of the agenda and will continue to gain strategic importance for banks, regulators and investors
Fintech	Lockdown led to unseen digital customer increase in banking, opening the market even more for new competitors with different business models. Regulators also incentivize the digital transformation with their sandboxes
Conduct	Operational risk increase, management of public aid and tighter market conditions might lead to conduct issues and litigation

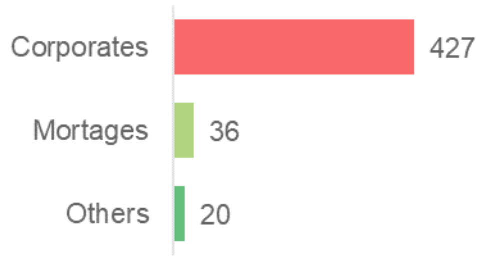
CO2 footprint estimation

1 Geography
CO2 per GDP Mn

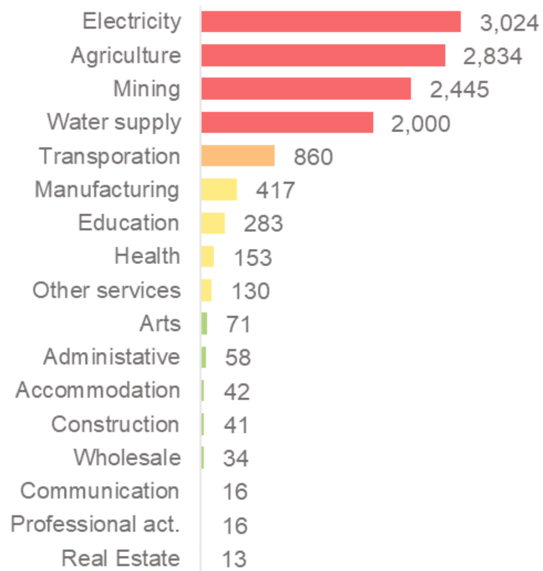


2 Asset class
CO2 per Gross Exposure Mn

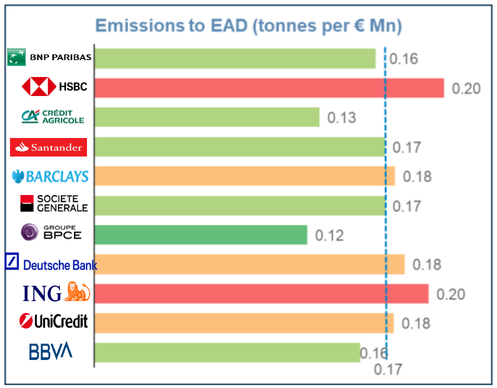
Asset Class	CO2/Gross Exposure
Corporates	427
Mortgages	36
Others	20



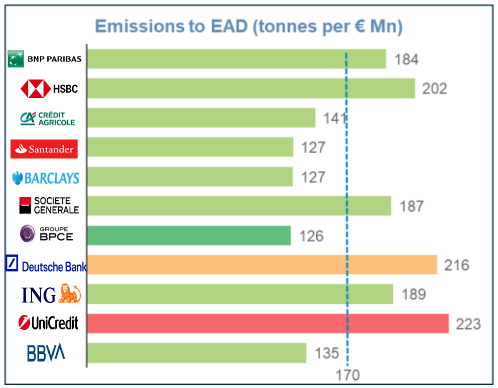
3 Industry
CO2 per Gross Exposure Mn



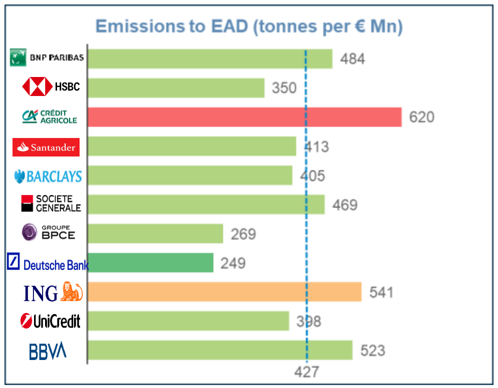
Geographical ranking
Average CO2 geographical weight



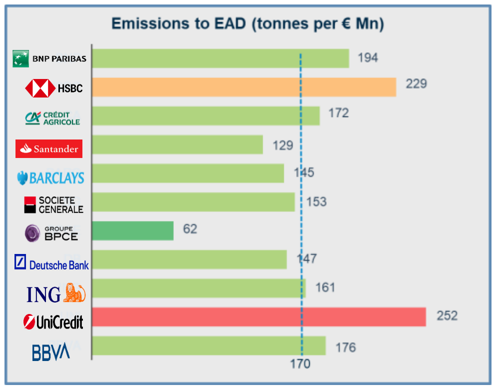
Asset class ranking
Average CO2 asset weight



Industry ranking
Average CO2 industry weight



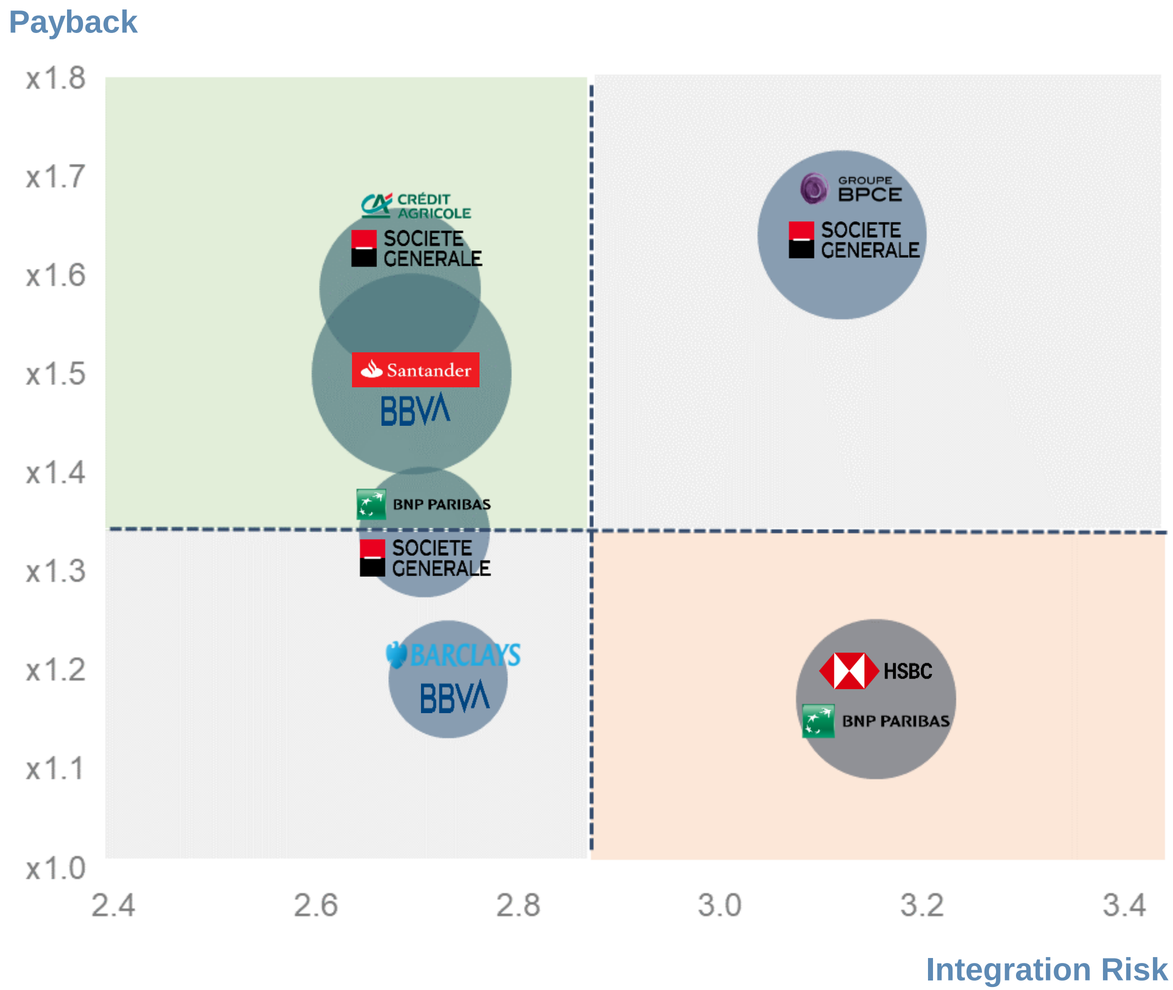
Global ranking
CO2 per Gross Exposure Mn



Source: CO2 Emissions (kg per PP $ of GDP): World Bank and EDGAR (JRC)
Exposure Amount by Asset class: Transparency exercise EBA

Market potential transactions

Combination of Payback and Risk



● Transaction net absolute value

Source: Financial statements, Investor presentations, A&M analysis

Takeaways

- SG acquisition by CA presents one of the lowest integration risk compared to other combinations
- SG is attractive for its French peers in terms of size
- SAN – BBVA is the most sizable potential merger

Glossary

	Metric	Abbreviation	Definition
Size	Loans and Advances Growth		YoY growth in EOP gross customer loans for the top 10+1
	Deposits Growth		YoY growth in EOP customer deposits for the top 10+1
Liquidity	Loan-to-Deposit Ratio	LDR	(EOP gross customer loans / EOP customer deposits) for the top 10+1
Income & Operating Efficiency	Yield on Credit	YoC	(Annualized YTD gross interest income / YTD average gross loans & advances) for the top 10+1
	Cost of Funds	CoF	(Annualized YTD interest expense) / (YTD average interest-bearing liabilities) for the top 10+1
	Net Interest Margin	NIM	(Annualized YTD net interest income) / (YTD average net earning assets) for the top 10+1 Net earnings assets are defined as total assets excluding tangible and intangible assets
	Non-Interest Income / Operating Income		(YTD non-interest income / YTD operating income) for the top 10+1
	Operating Income / Assets		(Annualized YTD operating income / YTD average total assets) for the top 10+1
	Operating Revenue Growth	OI	YoY growth is annualized YTD quarterly operating income generated by the top 10+1
	Cost-to-Income Ratio	C/I	[(YTD administrative expenses + amortizations + other provisions) / YTD operating income] for the top 10+1
Risk	Non-performing loans ratio	NPL	(Non-performing loans / gross customer loans) for the top 10+1
	Coverage Ratio		(Loan loss reserves / non-performing loans) for the top 10+1
	Cost of Risk	CoR	(YTD provision for loan losses / YTD gross loans and advances) for the top 10+1
Profitability	Return on Equity	RoE	(Annualized YTD net income attributable to Parent) / (YTD average equity) for the top 10+1
	Return on Assets	RoA	(Annualized YTD net income / YTD average assets) for the top 10+1
	Return on Risk-Weighted Assets	RoRWA	(Annualized YTD net income / YTD average risk-weighted assets) for the top 10+1
	Return on Capital	RoC	(Annualized YTD net income / YTD average CET1) for the top 10+1
Capital	CET1 Ratio fully loaded	CET1 FL	(EOP CET1 fully loaded) / (EOP risk-weighted assets) for the top 10+1

Note: EOP stands for end of period