S&P Global Ratings

European G-SIBs Monitor H1 2022

Rising margins offset higher inflation

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This report does not constitute a rating action

Recent Developments For European Global Systemically Important Banks (G-SIBs)

Deteriorating macro environment and rising rates

June 16
Swiss National Bank raises interest rates by 50 basis points (bps); Bank of England by 25 bps

June 27
S&P Global Ratings lowers its macro forecasts

July 21
European Central Bank (ECB) raises interest rates by 50 bps

Aug. 4
Bank of England raises interest rates by 50 bps

July 27/Aug. 1
Credit Suisse reports a major loss in the half year, the CEO resigns, and S&P Global Ratings revises the outlook to negative from stable

Sept. 8
ECB raises interest rates by 75 bps

June 2022 — July 2022 — Aug. 2022 — Sept. 2022

May 16
S&P Global Ratings downgrades Credit Suisse due to the bank's changing risk and return profile

June
S&P Global Ratings revises its Chinese BICRA economic risk trend to stable from positive

July
S&P Global Ratings revises its German BICRA economic risk trend to negative from stable

July 29
S&P Global Ratings revises the outlook on UniCredit to stable from positive following a similar action on the sovereign

Aug. 29
S&P Global Ratings publishes downside macro scenario for Russian gas stoppage: Euro area GDP growth of 2.5%, 0.5%, and 1.4% in 2022, 2023, and 2024, respectively, while Germany would fall into recession in 2023.

Major Trends In European G-SIBs' H1 2022 Financial Results

Revenues rise and asset quality is still benign, while capitalization metrics normalize

Worsening | Neutral | Improving

Revenues	Most banks posted high-single to double-digit revenue growth, with the notable exception of Credit Suisse. Steady loan growth and rising interest rates boosted net interest income, and banks expect this to continue. Investment banking activities saw a more mixed picture, with trading activities performing particularly well on the back of increased client flows, while advisory businesses suffered from declines in fees, especially compared with a very high base in the first half of 2021.
Operating costs	Operating costs were slightly up for most banks, but less than revenues, barring exceptional litigation or restructuring costs, meaning positive jaws and rising operating income for most. Banks are pursuing cost-discipline programs, compensating for inflationary pressures on wages and other noninterest expenses for now. Again, Credit Suisse was a negative outlier in the pack.
Credit costs and asset quality	Banks did not report any notable rise in defaults. Stage 3 loans remain at historical lows relative to total loans, especially after UniCredit's clean-up exercise. Looking ahead, banks remain cautious about the macroeconomic outlook (rising inflation, lower growth) and therefore continue to build or maintain provision buffers against performing loans, albeit less assiduously in the second quarter than in the first. A further deterioration in the outlook could lead to new provisioning decisions later this year.
Capitalization	Risk-based regulatory ratios are mostly under moderate pressure, as regulatory risk-weighted asset (RWA) volumes have expanded due to various factors, including strong loan growth and regulatory changes. Furthermore, the leverage ratios of eurozone banks have declined slightly due to the end of the regulatory relief granted during the COVID-19 pandemic. Many banks have also resumed shareholder distributions, having paused them during the pandemic. Overall, capitalization is back to pre-pandemic levels and remains comfortable.

European G-SIBs Are On Track Against Their Own Targets, Barring Cost Efficiency

European G-SIBs' performance against their beginning-of-year targets

- Improving interest margins boosted the returns and thus the profitability of many European G-SIBs, moving them closer or even substantially ahead of management guidance.
- Despite earnings improving, cost efficiency remains a key area in need of improvement. However, cost-to-income targets vary substantially, between 45% for Santander and over 70% for UBS.
- Some G-SIBs lag their profitability targets largely due to idiosyncratic factors. For instance, Credit Suisse is in the midst of a strategic reshuffle.
- After years of capital buildup, most European G-SIBs have met or exceeded their capitalization targets, although recent market turbulence has affected some.

Bank [target horizon[1]]	Profitability	Cost efficiency	Capitalization
HSBC [medium term]	**9.9%** [-10 bps] | ROTE	**65.1%** [N/A[2] | CIR]	**13.6%** [-65 bps | CET1]
BNP Paribas [2025]	**12.4%** [+140 bps | ROTE]	**66.8%** [N/A[3] | CIR excl. SRF]	**12.2%** [+20 bps | CET1]
Credit Agricole S.A. Group [2022[4]]	**13.9%** [+290 bps | ROTE]	**56.8%** [-320 bps | CIR excl. SRF]	**11.3%** [+30 bps | CET1]
Santander [2022]	**13.7%** [+70 bps | ROTE]	**45.5%** [+50 bps | CIR]	**12.1%** [+5 bps | CET1]
UBS [2022-2024]	**18.9%** [+240 bps | ROCET1]	**70.6%** [-90 bps | CIR]	**14.2%** [+120 bps | CET1]
ING [2025]	**7.5%** [-450 bps | ROE]	**61.0%** [+1,000 bps | CIR]	**14.7%** [+220 bps | CET1]
BPCE [2024]	**5.3%** [N/A[5] | RoACE]	**64.6%** [-40 bps | CIR excl. SRF]	**14.9%** [-60 bps | CET1]
Standard Chartered [2024]	**10.1%** [+10 bps | ROTE[6]]	**66.8%** [+680 bps | CIR]	**14.1%** [+60 bps | CET1]
Credit Suisse [2024]	**(15%)** [-2,500 bps | ROTE]	**130.0%** [N/A[5] | CIR]	**13.5%** [-50 bps | CET1]
Barclays [medium term]	**10.1%** [+10 bps] | ROTE	**69.0%** [+900 bps | CIR]	**13.6%** [+10 bps | CET1]
Société Générale [2022]	**10.5%**[7] [N/A[5]] | ROTE	**61.8%** [-520 bps | CIR excl. SRF]	**12.9%** [+142 bps | CET1]
Deutsche Bank [2022]	**8.0%** [+0 bps | ROTE]	**73.0%** [+300 bps | CIR]	**13.0%** [+50 bps | CET1]
UniCredit [2024]	**11.7%** [+170 bps | ROTE]	**49.5%** [-50 bps | CIR]	**15.7%** [+300 bps | CET1]

H1 2022 actual metric [distance to target] | underlying metric. All data points are as reported (annualized). For banks that set target ranges, we used the middle of the range to determine the distance to the target. Targets are as communicated with year-end 2021 financials. ROTE--Return on tangible equity (%). ROCET1--Return on CET1 (%). RoACE--Return on average common equity (%). CIR--Cost-to-income ratio (%). CET1--Common equity Tier 1. bps--Basis points. N/A--Not applicable. (1) Capitalization targets are running targets for most, only BNP Paribas and BPCE tie capitalization targets to their overall target horizon. (2) Only absolute cost target. (3) Cost target not tied to cost-to-income ratio. (4) Targets refer to Credit Agricole S.A. Group, profitability and efficiency targets are not disclosed publicly at Credit Agricole Group level. Metrics shown in the charts of this deck refer instead to Credit Agricole Group and hence are not comparable. (5) No target declared. (6) Continuous target over target horizon. (7) Underlying ROTE excludes negative impact from the Russia exit.

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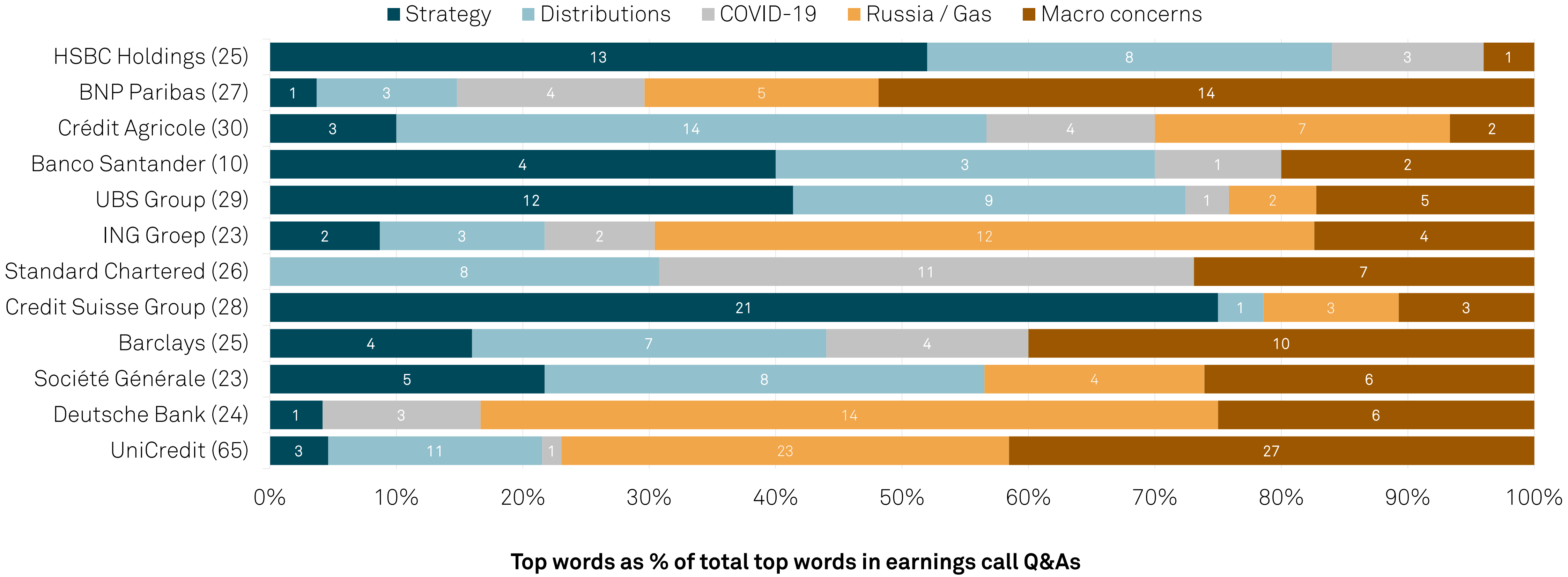
Inflation And Russia Were Top Risks In The Market

Textual analysis of G-SIBs' H1 2022 earnings call Q&As



The number in brackets shows the total count of the top words. No transcripts of earnings calls are available for BPCE.

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Primary Outlook Drivers Differ Across European G-SIBs

- Most European G-SIBs have stable outlooks, but primary outlook drivers differ across banks. For some, efforts made to restructure operations in the past few years have been sufficient to stabilize the ratings, but future rating prospects largely hinge on the ongoing delivery of their strategies. For others, future rating drivers revolve more around the evolution of the macroeconomic environment.
- We revised the outlook on Credit Suisse to negative on Aug. 1, 2022, reflecting the setbacks that the bank could face in redesigning its strategy, with new management at the helm, in order to transform the bank in an increasingly difficult operating environment.
- As for Barclays, the positive outlook reflects our view that the bank is delivering a stronger, more consistent business profile and financial performance.

	Anchor	Business position	Capital and earnings	Risk position	Funding and liquidity	CRA	SACP	Support type	ICR/outlook
HSBC	bbb+	Strong (+1)	Adequate (+0)	Strong (+1)	Strong/Adequate (+0)	0	a	ALAC	A+/Stable
BNP Paribas	bbb+	Very strong (+2)	Adequate (+0)	Adequate (+0)	Adequate/Adequate (+0)	0	a	ALAC	A+/Stable
Credit Agricole	bbb+	Strong (+1)	Adequate (+0)	Strong (+1)	Adequate/Adequate (+0)	0	a	ALAC	A+/Stable
Banco Santander	bbb	Very strong (+2)	Adequate (+0)	Strong (+1)	Adequate/Adequate (+0)	0	a	ALAC	A+/Stable
UBS	a-	Strong (+1)	Strong (+1)	Moderate (-1)	Adequate/Adequate (+0)	0	a	ALAC	A+/Stable
ING	bbb+	Strong (+1)	Strong (+1)	Adequate (+0)	Adequate/Adequate (+0)	0	a	ALAC	A+/Stable
BPCE	bbb+	Adequate (+0)	Strong (+1)	Adequate (+0)	Adequate/Adequate (+0)	0	a-	ALAC	A/Stable
Standard Chartered	bbb+	Adequate (+0)	Adequate (+0)	Adequate (+0)	Strong/Strong (+1)	0	a-	ALAC	A+/Stable
Credit Suisse	a-	Adequate (+0)	Strong (+1)	Moderate (-1)	Adequate/Adequate (+0)	-1	bbb+	ALAC	A/Negative
Barclays	bbb+	Adequate (+0)	Strong (+1)	Moderate (-1)	Adequate/Adequate (+0)	0	bbb+	ALAC	A/Positive
Société Générale	bbb+	Adequate (+0)	Adequate (+0)	Adequate (+0)	Adequate/Adequate (+0)	0	bbb+	ALAC	A/Stable
Deutsche Bank	bbb+	Adequate (+0)	Adequate (+0)	Moderate (-1)	Adequate/Adequate (+0)	0	bbb	ALAC	A-/Stable
UniCredit	bbb	Strong (+1)	Adequate (+0)	Moderate (-1)	Adequate/Adequate (+0)	0	bbb	-	BBB/Stable

Ratings as of Sept. 12, 2022. CRA--Comparable ratings analysis. SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. ICR--Issuer Credit Rating. ICRs for HSBC, UBS, ING, Standard Chartered, Credit Suisse, and Barclays refer to the main operating entity, not the holding company.

Deep Dive: European G-SIBs Six Months Into 2022

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Loan Growth Was Still Strong In H1, But We Expect It To Moderate

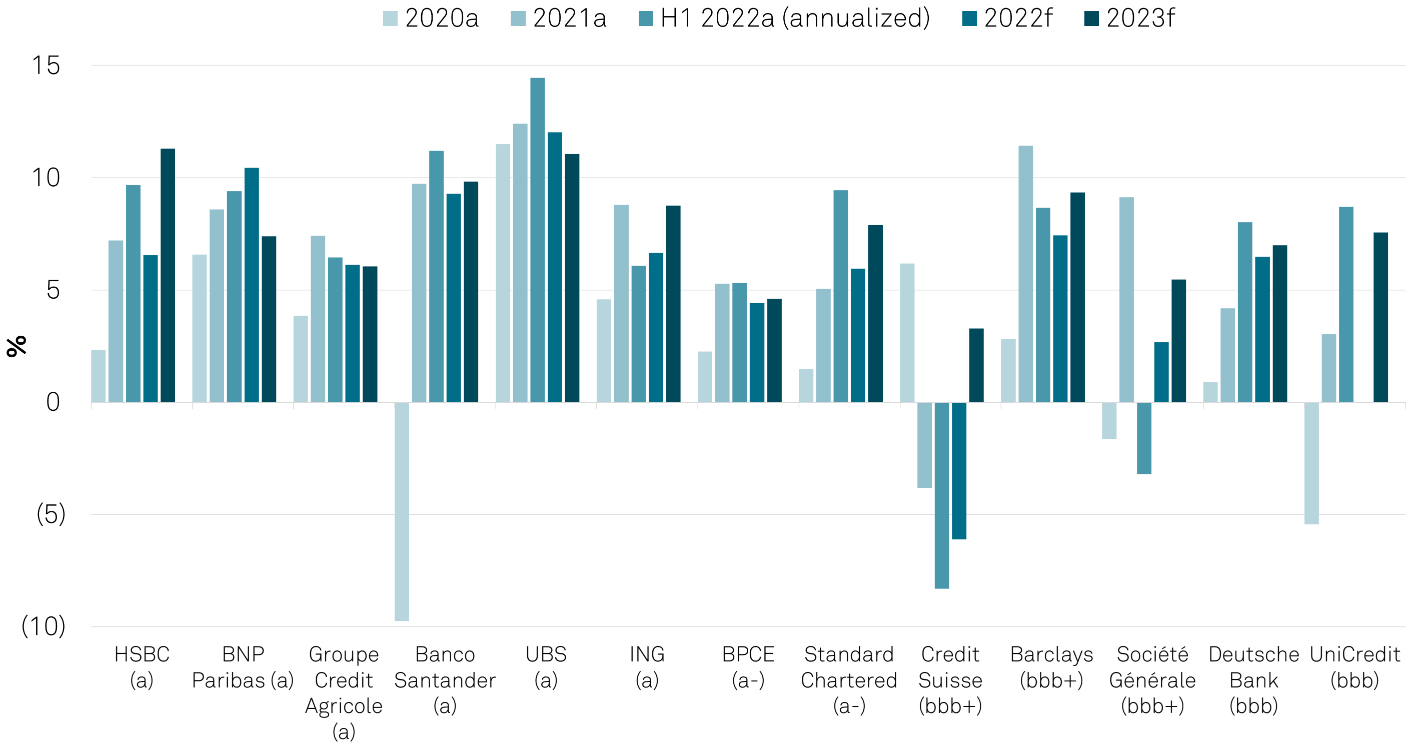
Gross Customer Loan Growth

*Not annualized. BNP Paribas: The decline in gross customer loans expected in 2023 is largely explained by the sale of Bank of the West.
Letter in brackets indicates stand-alone credit profile (SACP). a--Actual. f--Forecast. Source: S&P Global Ratings.

- Most European G-SIBs still showed solid, though reducing, customer loan growth in the first half of 2022, with many banks reporting close to a 5% increase in gross customer loans compared to December 2021.
- For the rest of 2022 and 2023, we expect slower business and loan growth as banks tighten their underwriting standards, mainly due to macro uncertainties.
- Notable exceptions bucking the positive trend are HSBC, and Standard Chartered--but this is largely a statistical effect due to exchange-rate movements. UBS also showed negative lending growth due to weaker customer demand for Lombard loans.

Earnings Performance Was Solid In H1 2022

Profitability: Return On Average Common Equity

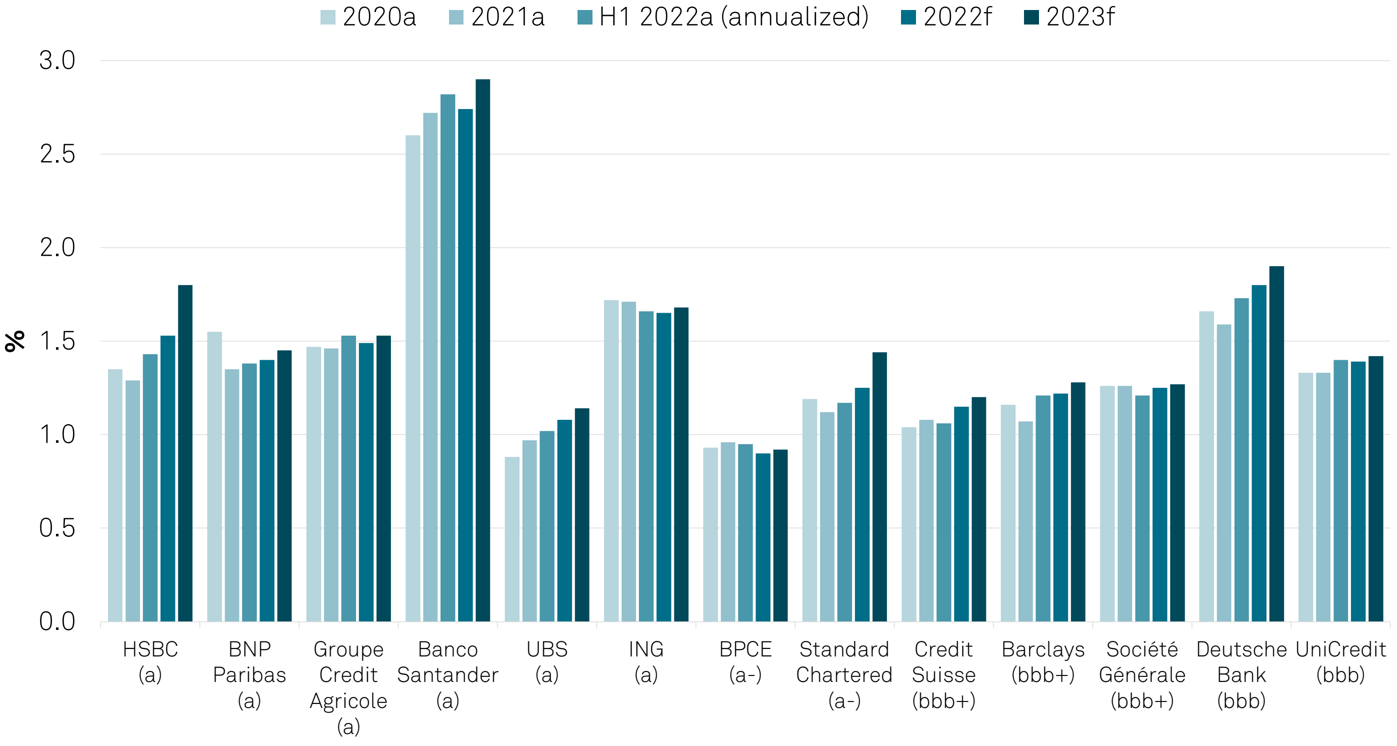


Letter in brackets indicates stand-alone credit profile (SACP). a--Actual. f--Forecast. Source: S&P Global Ratings.

- European G-SIBs' profitability metrics were boosted by rising interest rates and margins over the first six months of 2022. We expect many banks' return on equity to land in the 5%-10% range for the full year.
- Retail lenders benefit from higher and steeper yield curves, and banks such as UBS and Barclays, which focus more on international capital markets, showed solid half-year performance driven by exceptional client trading activity amid market volatility.
- Elevated Russia/Ukraine exposures negatively affected Société Générale and UniCredit in particular. Credit Suisse is a clear outlier, with a deeply negative performance in the first half of 2022, driven by further litigation costs and falling revenues in the investment banking business.

Rising Rates Drive Net Interest Margins Up For Most

Net Interest Margins

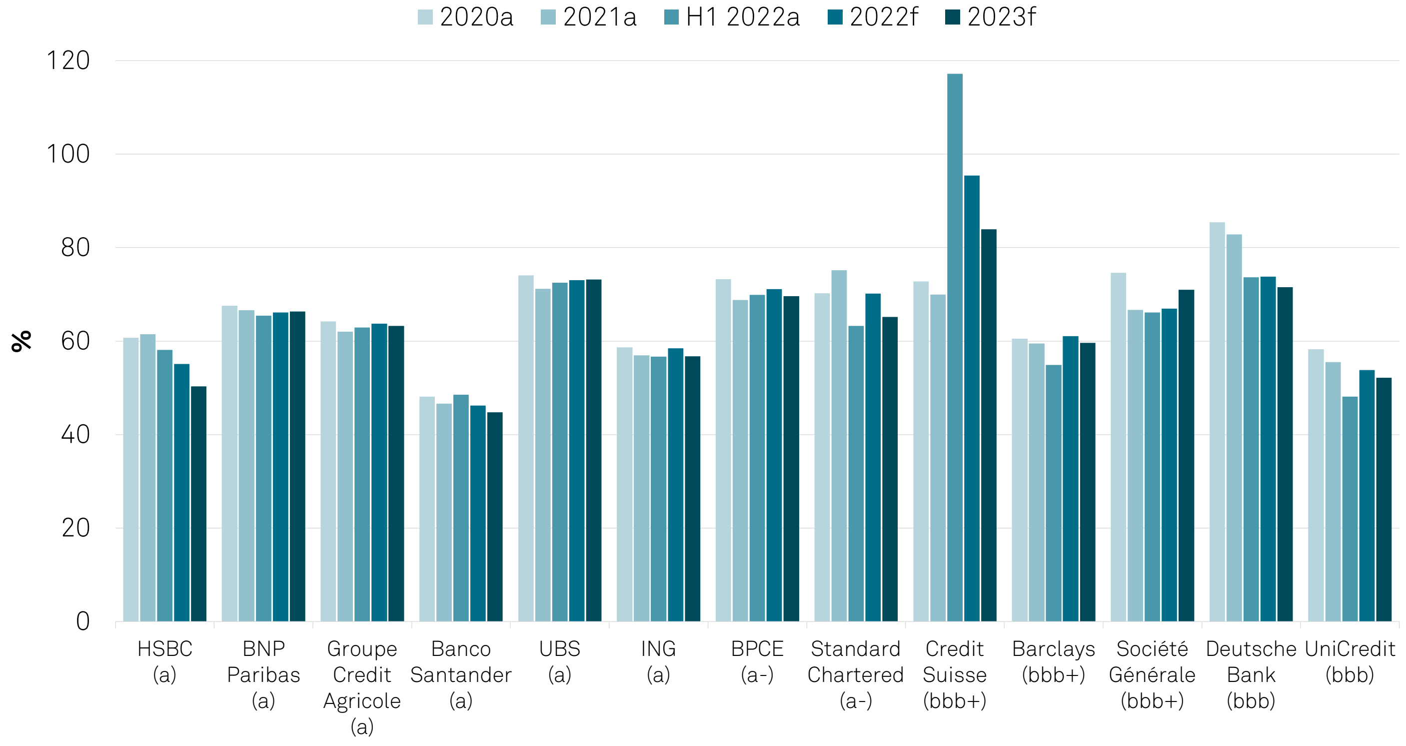


Letter in brackets indicates stand-alone credit profile (SACP). a--Actual. f--Forecast. Source: S&P Global Ratings.

- With the normalization of monetary policies around Europe, most European G-SIBs have improved their net interest margins, and we expect this trend to continue in 2023.
- However, banks' relative positions remain broadly stable, except for HSBC, Deutsche Bank, and Standard Chartered, which have particularly strong trajectories.
- At the same time, most French G-SIBs, exemplified by BPCE, continue to trail their peers in terms of both the level and evolution of their margins. This is mainly due to the nature of French banks' loan books and to specific regulatory factors such as regulated savings and the usury rate.

Some G-SIBs Will Likely Continue To Improve Their Efficiency

Cost-To-Income Ratio



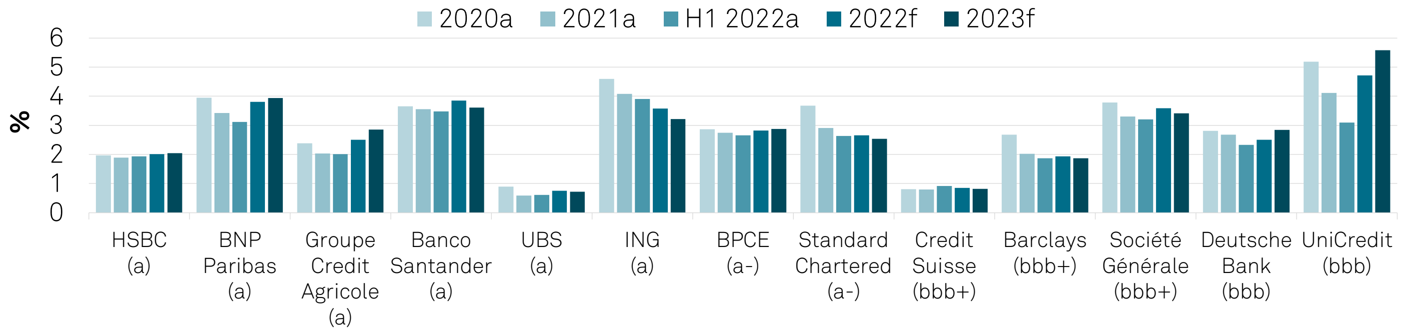
Letter in brackets indicates stand-alone credit profile (SACP). a--Actual. f--Forecast. Source: S&P Global Ratings.

- Improving revenues support cost efficiency for some European G-SIBs, particularly those focusing on lending business, such as best-in-class Santander or strongly improving HSBC, Standard Chartered, Barclays, Deutsche Bank, and UniCredit.
- For most others, rising interest margins have not yet translated into improving cost-efficiency metrics. Higher inflation will also push operational costs higher--upcoming wage negotiations will be key to watch in that regard.
- Idiosyncratic factors, namely being in the midst of a strategic overhaul and multiple legacy and legal issues, push Credit Suisse to the bottom of the pack, and we expect only gradual improvements going forward.

Asset Quality Has Held Up Well So Far, But More Downside Risks Lie Ahead

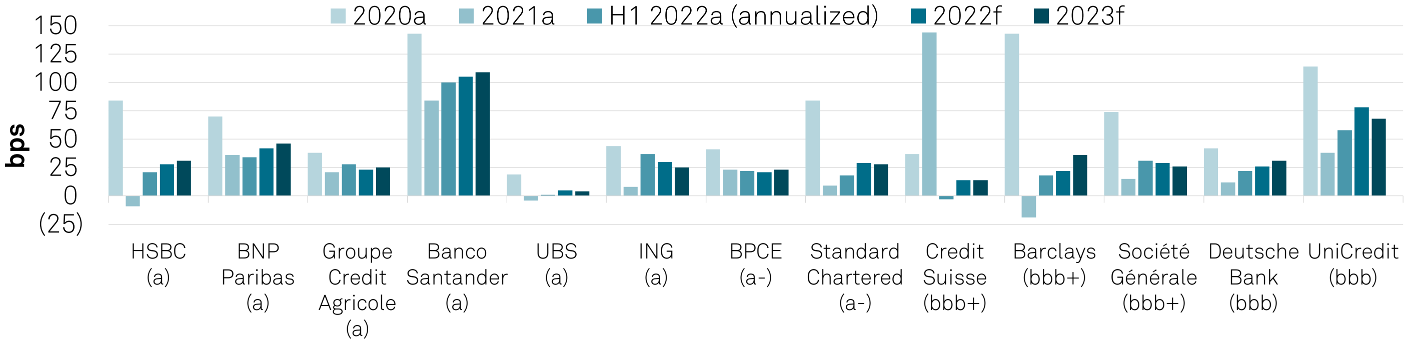
Nonperforming Loans

Gross nonperforming assets/customer loans + other real estate owned (%)



Cost Of Risk

New loan loss provisions/average customer loans

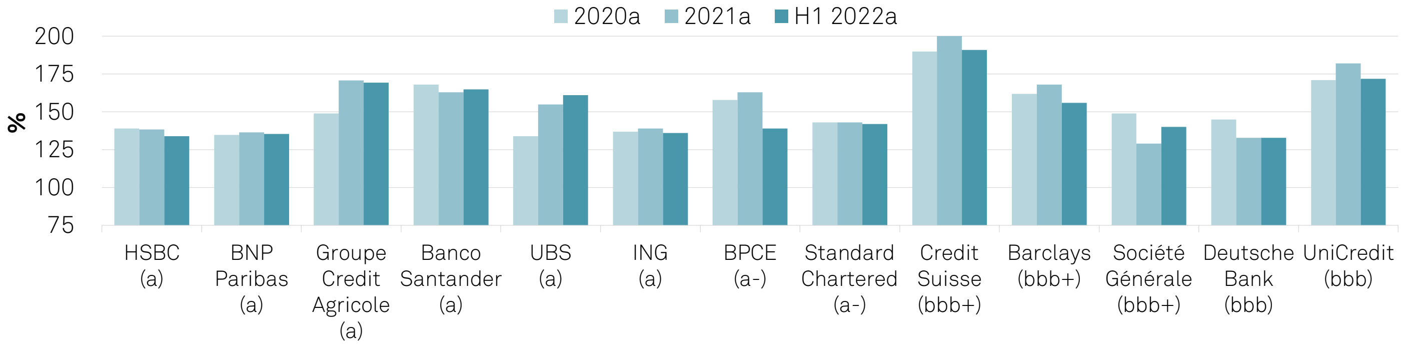


ING's H1 2022 nonperforming loan ratio is estimated based on December 2021 forborne exposures disclosure. Letter in brackets indicates stand-alone credit profile (SACP). bps—Basis points. a--Actual. f--Forecast. Source: S&P Global Ratings.

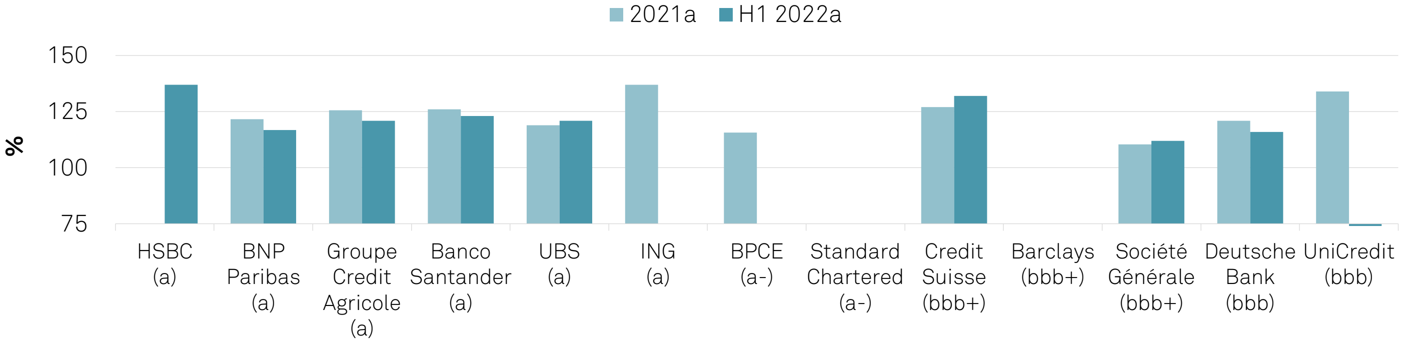
- European G-SIBs have not reported any signs of asset-quality deterioration in their first-half results. Nonperforming loans remain at historical lows.
- Against this backdrop, banks have continued to focus on building provisions against performing assets. This follows revisions in their macro assumptions and management overlays to cover potential second-round effects from the war in Ukraine and the ongoing energy crisis.
- We expect a slight deterioration in asset quality for most banks, driven by the weaker macro environment. This will likely lead to an uptick in credit costs in 2022 and 2023, but within limited overall levels.
- The risks of recession in Europe are rising and could lead to weaker asset-quality trends for banks. That said, absent an exceptionally severe downturn, we believe credit costs will remain broadly manageable, given positive profitability trends.

Funding And Liquidity Metrics Remain Stable So Far

Liquidity Coverage Ratio



Regulatory Net Stable Funding Ratio

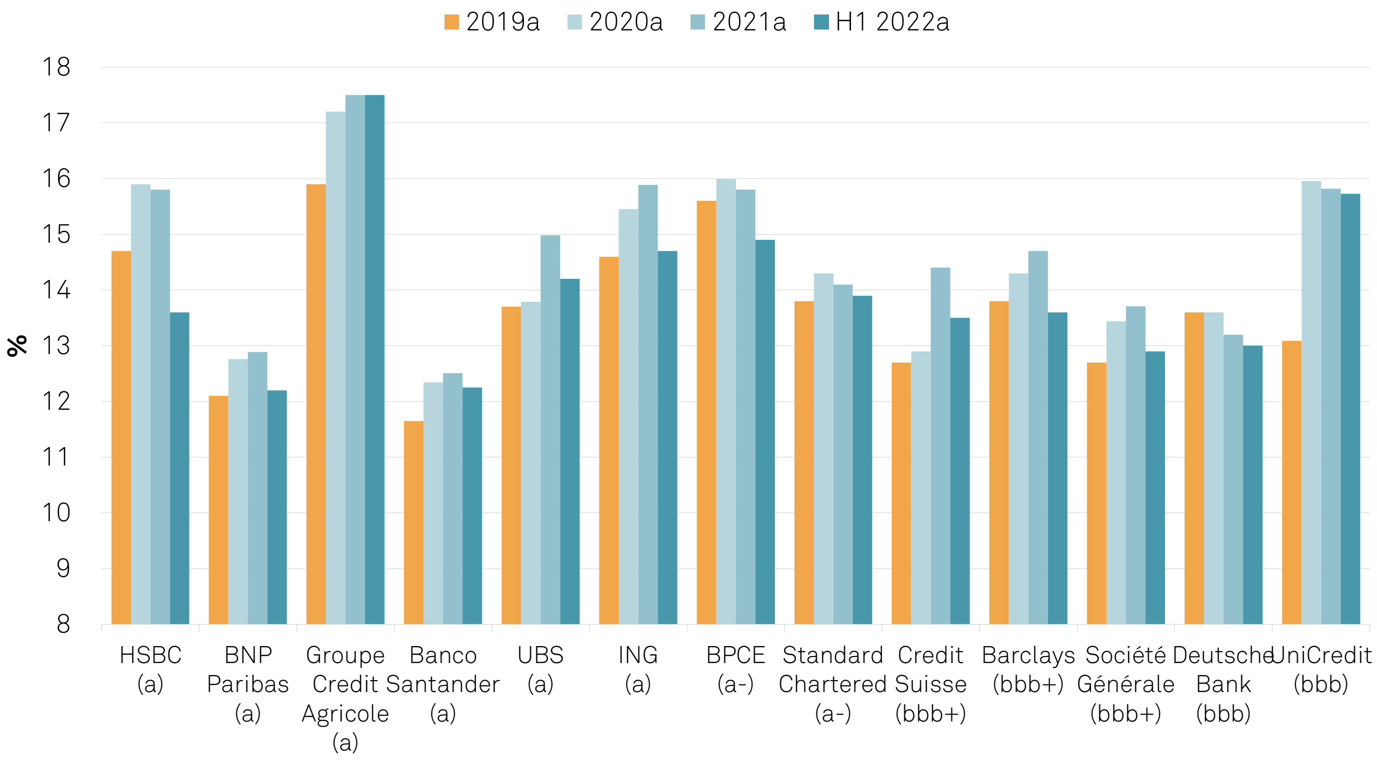


Letter in brackets indicates stand-alone credit profile (SACP). a--Actual. Source: S&P Global Ratings.

- European G-SIBs' regulatory liquidity coverage ratios are broadly stable and comfortably above the regulatory requirements.
- European G-SIBs have solid funding franchises with access to stable funding sources, as evidenced by their net stable funding ratios (NSFR) comfortably above the requirements.
- We expect eurozone banks to repay targeted longer-term refinancing operation (TLTRO) lines at maturity, therefore benefiting from positive carry trades in the months to come as the ECB's deposit rates rise. However, as TLTRO lines start to drop out of the NSFR calculation, banks will have to issue term funding to maintain satisfactory stable funding levels--this will come at a marginally higher cost.

Capitalization Normalizes From Extraordinarily High Post-Pandemic Levels

Common Equity Tier 1 Ratios



Letter in brackets indicates stand-alone credit profile (SACP). a--Actual. Source: S&P Global Ratings.

- Regulatory capital ratios broadly came down in the first half of 2022. This was driven by increases in shareholder distributions and by growth in RWAs.
- The most significant movement was for HSBC (down 2.2 percentage points), and is mostly explained by adverse regulatory changes, fair value losses on bonds through equity, and higher capital deductions.
- For most banks, capitalization metrics remain comfortable, comparable to, or above pre-pandemic levels.

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Appendix

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- HSBC Holdings PLC, July 6, 2022
- Credit Suisse Group AG, June 23, 2022
- Deutsche Bank AG, May 24, 2022
- UBS Group AG (Holding Company); UBS AG (Lead Bank), March 4, 2022
- UniCredit SpA, Feb. 22, 2022
- BPCE, Dec. 3, 2021
- Standard Chartered PLC; (Holding Co.); Standard Chartered Bank (Lead Bank), Oct. 26, 2021
- Société Générale, Oct. 14, 2021

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