Contents

European G-SIBs' Financial Performance In H1 2023

Regulatory Stress Tests 2023

European G-SIBs – Our Key Expectations For 2023-2024

Related Research
Key Takeaways

• European global systemically important banks (G-SIBs) continued to perform well in the first half of 2023, despite the market volatility in March following the failure of several U.S. regional banks and UBS’ takeover of Credit Suisse.

• We took positive rating actions on Deutsche Bank and Barclays, reflecting improvements in their resilience and performance. We also took various actions on Credit Suisse and UBS to reflect their merger. Among the European G-SIBs, only our ratings on UBS Group AG have a negative outlook.

• That said, we saw clear divergences in financial performance across European G-SIBs in first-half 2023. Margins and earnings of many G-SIBs continued to benefit from rising rates, but we expect 2023 will be the high-water mark. French G-SIBs are notable exceptions, with larger increases in funding costs leading to declining margins for many.

• Results from regulatory stress tests confirm European G-SIBs’ broad resilience to a severe economic shock, with all banks able to stay above the minimum capital requirements under the adverse scenario.

• EU G-SIBs modelled lower credit losses than the other banks the European Banking Authority (EBA) tested, hinting at the risk diversification benefits their size brings. That said, the EBA’s assumptions on interest rates and deposit repricing dealt a particular blow to the French G-SIBs, which saw the largest capital ratio declines within this peer group.
We took rating actions on four European G-SIBs in the past quarter: Deutsche Bank, Barclays, UBS, and Credit Suisse.

Recent Developments

May 10/11
The ECB and BoE raise interest rates by 25 and 50 bps, respectively.

June 21-23
The ECB and BoE raise interest rates by 50 and 25 bps, respectively. The SNB follows with a 25 bps increase.

July 12/28
The BoE and EBA/ECB release 2023 stress test results, generally indicating banks' resilience to adverse developments thanks to improving earnings and stronger capital.

Aug. 2/3
The ECB and BoE both raise interest rates by 25 bps.

Sept. 14
The ECB raises interest rates by 25 bps.

May 17
We revised our outlook on the Deutsche Bank ratings to positive on strengthening resilience and performance.

May 19
We upgraded Barclays to 'A+' on business diversification and performance.

June 12
UBS acquired Credit Suisse. We affirmed our ratings on UBS entities. We revised the outlook on the UBS HoldCo ratings to negative. We kept the outlook on the UBS OpCo ratings stable.

July 24
We affirmed our Swiss bank ratings, including those on UBS, after our review of the banking sector.

Sept. 7
We affirmed our ratings on all UBS entities. We raised our ratings on Credit Suisse’s OpCo to 'A+' from 'A', as it is now core to UBS Group.

European G-SIB Ratings | Stability Despite Divergent Performances

- The ratings and outlooks on the European G-SIBs remain resilient, with one positive outlook and 11 stable outlooks on the OpCo ratings.
- The positive outlook on the Deutsche Bank ratings recognizes the bank’s strengthening resilience and improving performance.
- The negative outlook on the UBS HoldCo ratings mainly reflects the execution risk arising from the integration and restructuring of Credit Suisse. In particular, we recognize risks to franchise strengths, profitability, and funding, alongside tail risks from winding down a large part of Credit Suisse’s investment banking activities.
- The stable outlook on the UBS OpCo ratings recognizes that a one-notch downward revision of the group SACP to ‘a-’ is unlikely to affect the ratings on these core entities, thanks to the high ALAC buffer and the additional notch of ALAC uplift that would be available in this scenario.

<table>
<thead>
<tr>
<th>Anchor</th>
<th>Business position</th>
<th>Capital and earnings</th>
<th>Risk position</th>
<th>Funding and liquidity</th>
<th>CRA</th>
<th>SACP</th>
<th>Support type</th>
<th>OpCo ICR/outlook</th>
<th>HoldCo ICR</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC</td>
<td>bbb+</td>
<td>Strong (+1)</td>
<td>Adequate (+0)</td>
<td>Strong (+1)</td>
<td>Strong/Adequate (+0)</td>
<td>0</td>
<td>a</td>
<td>ALAC (+1)</td>
<td>A+/Stable</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>bbb+</td>
<td>Very strong (+2)</td>
<td>Adequate (+0)</td>
<td>Adequate (+0)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>a</td>
<td>ALAC (+1)</td>
<td>A+/Stable</td>
</tr>
<tr>
<td>Credit Agricole</td>
<td>bbb+</td>
<td>Strong (+1)</td>
<td>Adequate (+0)</td>
<td>Strong (+1)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>a</td>
<td>ALAC (+1)</td>
<td>A+/Stable</td>
</tr>
<tr>
<td>Banco Santander</td>
<td>bbb</td>
<td>Very strong (+2)</td>
<td>Adequate (+0)</td>
<td>Strong (+1)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>a</td>
<td>ALAC (+1)</td>
<td>A+/Stable</td>
</tr>
<tr>
<td>UBS</td>
<td>a-</td>
<td>Strong (+1)</td>
<td>Strong (+1)</td>
<td>Moderate (-1)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>a</td>
<td>ALAC (+1)</td>
<td>A+/Stable</td>
</tr>
<tr>
<td>ING</td>
<td>bbb+</td>
<td>Strong (+1)</td>
<td>Strong (+1)</td>
<td>Strong (+1)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>a</td>
<td>ALAC (+1)</td>
<td>A+/Stable</td>
</tr>
<tr>
<td>BPECE</td>
<td>bbb+</td>
<td>Adequate (+0)</td>
<td>Strong (+1)</td>
<td>Adequate (+0)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>a</td>
<td>ALAC (+1)</td>
<td>A+/Stable</td>
</tr>
<tr>
<td>Standard Chartered</td>
<td>bbb+</td>
<td>Adequate (+0)</td>
<td>Adequate (+0)</td>
<td>Strong/Strong (+1)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>a</td>
<td>ALAC (+2)</td>
<td>A+/Stable</td>
</tr>
<tr>
<td>Barclays</td>
<td>bbb+</td>
<td>Strong (+1)</td>
<td>Strong (+1)</td>
<td>Moderate (-1)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>a</td>
<td>ALAC (+2)</td>
<td>A+/Stable</td>
</tr>
<tr>
<td>Societe Generale</td>
<td>bbb+</td>
<td>Adequate (+0)</td>
<td>Adequate (+0)</td>
<td>Adequate (+0)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>bbb</td>
<td>ALAC (+2)</td>
<td>A/Stable</td>
</tr>
<tr>
<td>Deutsche Bank</td>
<td>bbb+</td>
<td>Adequate (+0)</td>
<td>Moderate (-1)</td>
<td>Adequate/Adequate (+0)</td>
<td>bb</td>
<td>bbb</td>
<td>ALAC (+2)</td>
<td>A-/Positive</td>
<td>-</td>
</tr>
<tr>
<td>UniCredit</td>
<td>bbb</td>
<td>Strong (+1)</td>
<td>Adequate (+0)</td>
<td>Moderate (-1)</td>
<td>Adequate/Adequate (+0)</td>
<td>0</td>
<td>bbb</td>
<td>-</td>
<td>BBB/Stable</td>
</tr>
</tbody>
</table>

European G-SIBs' Financial Performance In H1 2023
## H1 2023 | Key Trends

Revenues are rising for most, while asset quality remains benign and capitalization stable.

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>Most European G-SIBs continued to post high-single to double-digit revenue growth, primarily thanks to higher net interest income from rising interest margins. French G-SIBs are laggards, with declining net interest margins due to rising funding costs. Societe Generale and BPCE even recorded falling revenues year-on-year in the first half of 2023. The more mixed picture in investment banking continued amid sluggish issuance and M&amp;A volumes.</td>
</tr>
<tr>
<td><strong>Operating costs</strong></td>
<td>Inflation is slowly eating into G-SIBs’ operating costs, which diverge across the pack. For most, however, cost increases remain below revenue increases, leading to positive jaws and rising operating income. Some G-SIBs are pursuing cost-discipline programs, compensating for inflationary pressures on wages and other noninterest expenses for now.</td>
</tr>
<tr>
<td><strong>Credit costs and asset quality</strong></td>
<td>Banks did not report any notable rise in defaults. Stage 3 loans remain close to historical lows relative to total loans, as do loan loss provisions. Looking ahead, banks remain cautious amid persistent inflation and bleak growth prospects. We therefore expect a further need to build or maintain provision buffers against loan losses.</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>Capital ratios are stable to moderately improving, despite some expansion of regulatory risk-weighted asset volumes on the back of either loan growth or regulatory changes. Furthermore, many banks are continuing shareholder distributions. Overall, capitalization levels remain comfortable.</td>
</tr>
</tbody>
</table>

Source: S&P Global Ratings.
**H1 2023 | Revenue Trajectories Start To Differ**

Income performance in H1 2023 versus the average of H1 2020, H1 2021, and H1 2022

<table>
<thead>
<tr>
<th>Bank</th>
<th>Net Interest Income</th>
<th>Fees and commissions</th>
<th>Market-sensitive income</th>
<th>Other operating income</th>
<th>Total operating revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC (a)</td>
<td>+30% (15%)</td>
<td>(2%)</td>
<td>+121%</td>
<td>(757%)</td>
<td>+28%</td>
</tr>
<tr>
<td>BNP Paribas (a)</td>
<td>+24% (1%)</td>
<td>+13% (4%)</td>
<td>+57%</td>
<td>+118%</td>
<td>+20%</td>
</tr>
<tr>
<td>Groupe Credit Agricole (a)</td>
<td>-14% (1%)</td>
<td>+166%</td>
<td>-15%</td>
<td>(153%)</td>
<td>+21%</td>
</tr>
<tr>
<td>Banco Santander (a)</td>
<td>+17% (22%)</td>
<td>+38% (10%)</td>
<td>(32%)</td>
<td>(19%</td>
<td>+7%</td>
</tr>
<tr>
<td>UBS (a)</td>
<td>+14% (4%)</td>
<td>+114%</td>
<td>+38%</td>
<td>(38%)</td>
<td>+8%</td>
</tr>
<tr>
<td>ING (a)</td>
<td>+9%</td>
<td>+44%</td>
<td>+17%</td>
<td>(4%)</td>
<td>+14%</td>
</tr>
<tr>
<td>BPCE (a-)</td>
<td>+47%</td>
<td>+7%</td>
<td>+4%</td>
<td>+16%</td>
<td>+12%</td>
</tr>
<tr>
<td>Standard Chartered (a-)</td>
<td>+7%</td>
<td>+14%</td>
<td>+20%</td>
<td>+1%</td>
<td>+2%</td>
</tr>
<tr>
<td>Barclays (a-)</td>
<td>+14%</td>
<td>(8%)</td>
<td>+29%</td>
<td>(9%)</td>
<td>+5%</td>
</tr>
<tr>
<td>Societe Generale (bbb+)</td>
<td>+17%</td>
<td>+18%</td>
<td>0%</td>
<td>+19%</td>
<td>+6%</td>
</tr>
<tr>
<td>Deutsche Bank (bbb)</td>
<td>+45%</td>
<td>+18%</td>
<td>+7%</td>
<td>+12%</td>
<td>+13%</td>
</tr>
<tr>
<td>UniCredit (bbb)</td>
<td>+14%</td>
<td>+11%</td>
<td>+3%</td>
<td>+21%</td>
<td>+3%</td>
</tr>
</tbody>
</table>

The letters in brackets indicates the SACP; the percentage after the entity name indicates the change in operating revenues in H1 2023 versus the average for 2020-2022. The bubble size indicates the absolute revenue stream relative to operating revenues in H1 2023. Market-sensitive income captures income from trading, net gains from liquidity portfolio securities, equity in earnings of unconsolidated subsidiaries, and other market-sensitive income. Market-sensitive income for Credit Agricole was negative in past periods but positive in H1 2023. Therefore, the negative percentage change indicates an improvement. The bubbles for total operating revenues are all scaled to the same size. Source: S&P Global Ratings.

- **Net interest income**—the largest income source for most European G-SIBs—continued to expand greatly.

- **Fee and commission income** growth was more muted on the back of lower business volumes, particularly in investment banking.

- **Market-sensitive income** was more mixed. Fixed income in particular saw a drop-off in business flow, compared with a strong H1 2022.

- Note that BNPP revenues were negatively impacted in H1 2023 by the deconsolidation of Bank of the West.
**The Increase In Operational Costs Is Contained Despite Inflation**

Noninterest expenses in H1 2023 versus the average of H1 2020, H1 2021, and H1 2022

<table>
<thead>
<tr>
<th>Bank</th>
<th>Personnel expenses</th>
<th>Other noninterest expenses</th>
<th>Total operating noninterest expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC (a)</td>
<td>(1%)</td>
<td>+1%</td>
<td>(0%)</td>
</tr>
<tr>
<td>BNP Paribas (a)</td>
<td>+4%</td>
<td>+1%</td>
<td>(2%)</td>
</tr>
<tr>
<td>Groupe Credit Agricole (a)</td>
<td>+14%</td>
<td>(2%)</td>
<td>(30%)</td>
</tr>
<tr>
<td>Banco Santander (a)</td>
<td>+18%</td>
<td>(0%)</td>
<td>(5%)</td>
</tr>
<tr>
<td>UBS (a)</td>
<td>+12%</td>
<td>+45%</td>
<td>(30%)</td>
</tr>
<tr>
<td>ING (a)</td>
<td>+13%</td>
<td>(2%)</td>
<td>(5%)</td>
</tr>
<tr>
<td>BPCE (a-)</td>
<td>+6%</td>
<td>(21%)</td>
<td>(5%)</td>
</tr>
<tr>
<td>Standard Chartered (a-)</td>
<td>+14%</td>
<td>+14%</td>
<td>(5%)</td>
</tr>
<tr>
<td>Barclays (a-)</td>
<td>+15%</td>
<td>+25%</td>
<td>(5%)</td>
</tr>
<tr>
<td>Socio de Garantia (bbb+)</td>
<td>+10%</td>
<td>+3%</td>
<td>(3%)</td>
</tr>
<tr>
<td>Deutsche Bank (bbb)</td>
<td>+5%</td>
<td>+3%</td>
<td>(4%)</td>
</tr>
<tr>
<td>UniCredit (bbb)</td>
<td>(4%)</td>
<td>+3%</td>
<td>(4%)</td>
</tr>
</tbody>
</table>

The bubble size indicates absolute noninterest expenses by type relative to total noninterest expenses in H1 2023. The bubbles for total noninterest expenses are all scaled to the same size. Source: S&P Global Ratings.

- **Personnel expenses** increased for all European G-SIBs in H1 2023, compared with the last-three-year average, with the highest increases for Banco Santander, Barclays, and Groupe Credit Agricole.

- **Other noninterest operating expenses** are broadly well contained despite the inflationary environment.

- **UBS is a negative outlier on operational costs**, with more increases to come due to the restructuring of the former Credit Suisse operations.
H1 2023 | Net Interest Margins Show Clear Divergences

Net interest margins—H1 2023 versus 2021a and 2024f (%)

- Rising interest rates have boosted NIMs for most European G-SIBs, in line with broader trends for European banks.
- We expect only limited NIM upside beyond this year.
- Bucking the trend are the French G-SIBs, which have seen NIMs decline materially in H1 2023. We expect the situation to normalize by 2024, but French banks' NIMs remain below those of their peers.

Blue connections indicate an improvement in the return on average common equity in H1 2023 versus 2021a; red connections indicate a deterioration. NIM—Net interest margin. a—Actual. f—Forecast. Source: S&P Global Ratings.
H1 2023 | Profitability Is As High As It Gets, But Not For All

Return on average common equity—H1 2023 versus 2021a and 2024f (%)

• We believe that most European G-SIBs’ profitability has peaked this year.
• Rising funding costs and normalizing credit costs should drag on profits.
• Most French G-SIBs have taken a hit from margin declines in the French operations but benefit from geographical and product diversification.

Note: The axis cuts off at 25%. UBS’ H1 2023 return on average common equity (RoACE) of 83.1% is not shown. Barclays has an almost identical RoACE in both periods. Blue connections indicate an improvement in RoACE in H1 2023 versus 2021a. Red connections indicate a deterioration. Semiannual RoACE is annualized for comparison. a--Actual. f--Forecast. Source: S&P Global Ratings.
H1 2023 | Funding And Liquidity Metrics Are High And Stable

Regulatory net stable funding ratio

- G-SIBs have quickly adapted their funding plans to face accelerated TLTRO repayments, mainly by increasing covered bond issuance.

- Deposit growth has declined sharply and some G-SIBs have even seen modest deposit outflows, but lower lending volumes have limited overall funding pressure.

- We continue to see lower funding ratios (at BPCE, for example) as one of the drivers of higher funding costs, rather than a funding availability issue.

Many banks persisted with, or expanded, their extra capital distributions, thanks to solid capital generation, a forecast of low risk-weighted asset growth, and typically good headroom above management floors.

Mutuals aside, only UBS, Santander, and Societe Generale have no ongoing scheme for additional shareholder distributions.

BNP Paribas bolstered its CET1 ratio with the sale of Bank of the West. Its T1 also benefited from substantial AT1 issuance to improve its leverage ratio.

BNP Paribas’ L-MDA headroom is now a more comfortable 75 bps, albeit still the tightest among these peers. Headroom could fall as it reduces the CET1 ratio closer to the 12.0% management target from 13.6%.
Regulatory Stress Tests 2023

European G-SIBs Fared Well Overall, But With Notable Differences
Stress Tests | Key Methodological Choices And Assumptions

Differences in methodologies and macro assumptions make a direct comparison of the U.K. and EBA stress test results impossible.

EBA opts for a less realistic but more comparable exercise

<table>
<thead>
<tr>
<th></th>
<th>EBA</th>
<th>Bank of England</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet assumptions</td>
<td>Static balance sheet. No change to the asset base or business mix and fixed dividend payout ratios.</td>
<td>Dynamic balance sheet. Banks' submissions reflect their corporate plans, with some constraints.</td>
</tr>
<tr>
<td>Credit risk modelling</td>
<td>Mostly banks’ models, subject to uniform constraints and exceptions. For example: (i) No cure of S3 assets and no release of S3 provisions, (ii) Prescribed loss parameters for sovereign exposures and stressed RWAs for securitization positions.</td>
<td>Banks’ models, subject to supervisory challenges and judgmental overrides. Banks should not assume any change to their approach to calculating credit risk.</td>
</tr>
<tr>
<td>Profit projection</td>
<td>Banks’ projections, subject to uniform constraints and exceptions. For example: (i) Top-down supervisory model for net fee and commission income, (ii) overall NII cap under the adverse scenario.</td>
<td>Banks’ projections with guidance. Banks should estimate their funding costs and only incorporate modest cost reductions under business-as-usual scenarios.</td>
</tr>
</tbody>
</table>

Assumptions were harsher this time, especially for the EBA Start-to-trough GDP impact under EBA’s and BoE’s adverse scenarios

Stress Tests | European G-SIBs Fared Well Overall, But With Differences

Most European G-SIBs were subject to stress testing this year, albeit under different methodologies and assumptions.

Drivers of CET1 depletion in the adverse stress test scenarios (2025 versus 2022)

- None of the EU G-SIBs saw their CET1 ratios drop below the minimum capital requirements under the most adverse scenario.
- That said, three G-SIBs (BNPP, DB, and Societe Generale) would breach their overall capital requirement under the adverse scenario and therefore face restrictions on bonus, dividends, and AT1 coupon payments.
- In the EBA’s sample, CET1 depletion varies between 170 bps for Banco Santander and 731 bps for Groupe Credit Agricole and averages around 5% points in the adverse scenario.
- For the U.K. and after incorporating management actions, the end-point CET1 ratio ranges between 8.5% and 10.7% under the hypothetical stress scenario.

The U.K. starting point is June 2022; the euro area starting point is December 2022. Depletion for U.K. entities is before strategic management actions. *Banks in the EBA stress test that would tap their capital buffers under the adverse scenario. CET1—Common equity tier 1, RWAs—Risk-weighted assets. SREP—Supervisory review. Sources: EBA, Bank of England, S&P Global Ratings.

S&P Global
Ratings
Some G-SIBs Breached Leverage Requirements Under Stress

Leverage ratio in December 2025 under the adverse scenario versus the requirement

<table>
<thead>
<tr>
<th>Bank</th>
<th>Leverage ratio (adverse scenario, Dec-2025)</th>
<th>Δ Leverage ratio vs. Dec-2022</th>
<th>Regulatory requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>UniCredit</td>
<td>5.5</td>
<td>0.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Santander</td>
<td>4.5</td>
<td>0.5</td>
<td>4.0</td>
</tr>
<tr>
<td>ING Groep</td>
<td>4.0</td>
<td>0.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Groupe BPCE</td>
<td>4.2</td>
<td>0.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Groupe Credit Agricole</td>
<td>4.1</td>
<td>0.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Deutsche Bank</td>
<td>3.9</td>
<td>0.0</td>
<td>4.0</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>3.7</td>
<td>0.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Societe Generale</td>
<td>3.4</td>
<td>0.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Requirements are as per those last reported, that is June 2023 for all, except UniCredit (March 2023) and BPCE (December 2022). Sources: EBA, S&P Global Ratings.

• We compared the end-point leverage ratio of each EU G-SIB with its leverage ratio requirements, including the G-SIB buffer in place since January 2023.

• We found that Deutsche Bank, BNPP, and Societe Generale would breach their leverage ratio requirements under the adverse scenario. This, however, assumes a static balance sheet and no management actions from the banks.

• We understand that supervisors will use these stress test results to calibrate the Pillar 2 leverage ratio guidance for each bank, using a bucketing approach similar to the Pillar 2 guidance on capital ratios.
Drivers of CET1 depletion in the EBA’s adverse stress test scenario (2025 versus 2022)

- **Capital depletions vary greatly**, with French G-SIBs as negative outliers.
- The stress test assumed a protracted recession and higher-for-longer interest rates, with conservative assumptions on deposit repricing (deposit betas).
- This was particularly penalizing for banks with large sight deposit volumes and long-term fixed assets.
- The share of RWAs under the internal ratings-based (IRB) model versus the standardized approach also influence the CET1 ratio drawdown, as the IRB model is more risk-sensitive.

DTAs--Deferred tax assets. RWA--Risk-weighted asset. AOCI--Accumulated other comprehensive income. Sources: EBA, S&P Global Ratings.
EBA ST | Most G-SIBs Demonstrated A Credit Risk Advantage

Key modelled asset quality metrics under the EBA’s adverse scenario

- In the EBA stress test, most euro area G-SIBs have stronger asset quality metrics than other large European financial institutions included in the exercise. This is particularly true for BPCE, Groupe Credit Agricole, Societe Generale, and ING Group.
- Banco Santander, with its relatively high share of higher-risk business activities, such as consumer finance and non-European exposures, stands out, with significantly weaker metrics in the EBA stress scenario.

The bubble size indicates the total stage 3 exposures in December 2025 under the EBA’s adverse scenario. Cumulative credit losses aggregate impairments or a reversal of impairments of financial assets not measured at fair value through profit and loss. Exposures refer to both standardized and internal ratings based. The weighted average is calculated on the remaining EBA sample after excluding G-SIBs. Sources: EBA, S&P Global Ratings.
EBA ST | International Exposures Are Riskier Than Domestic Exposures

Modelled stage 3 ratios by geographical exposure under the adverse scenario

- European G-SIBs' largely superior aggregate asset quality is mostly thanks to better domestic asset quality, while their international exposures seem to be as risky or even riskier than non-G-SIBs'. Also, G-SIBs' international exposures tend to be riskier than their domestic exposures—except for UniCredit due to higher risks in Italy.

- G-SIBs’ domestic asset quality trends help to more than compensate for the usually lower credit quality of their international exposures. In aggregate, at almost 50% of exposures, G-SIBs’ international exposures are roughly twice as high as non-G-SIBs’, but with lower aggregate stage 3 ratios.
European G-SIBs – Our Key Expectations For 2023-2024
Higher Interest Rates And Economic Uncertainties Will Continue To Take Their Toll On Customer Loan Growth

- Loan growth reported here was also impacted by disposals and full-year rates.

- That said, we see that customer loan growth has decelerated markedly since the beginning of last year. This is due to the negative effects from higher rates and weaker economic growth.

- We expect loan growth to continue slowing due to higher-for-longer interest rates and continued macroeconomic uncertainties.

We exclude UBS due to incomparability following the merger with Credit Suisse. H1 2023 growth rates are annualized. The letters in brackets denote the stand-alone credit profile (SACP). a--Actual. f--Forecast. Source: S&P Global Ratings.
Improvements in net interest margins (NIMs) continued for many European G-SIBs in the first half of 2023.

While interest rates will likely remain higher for longer in European markets, we expect NIM expansion to come to an end relatively soon as funding costs catch up.

Bucking the trend are the French G-SIBs, which saw a rapid migration toward term deposits and a sharp repricing of deposits due to regulated deposits.

Revenue growth continues to drive cost-to-income ratios lower for many G-SIBs.

Cost control remains high on bank managers’ agendas in a context of elevated inflation.

A decrease in regulatory costs (such as single resolution fund build-up fees) should support cost-to-income ratios from 2024.

Cost-to-income ratios still range widely, with Santander and UniCredit leading the pack at 40%-50%, while Deutsche Bank or Societe Generale are above 70%.
Many European G-SIBs’ profitability has improved, with stronger earnings primarily due to higher margins, while risk and operating costs and retail deposit rates remained low.

In most cases, we expect small declines in return on equity from the H1 2023 high-water marks.

If macroeconomic developments are more negative than we anticipate, they could weigh on new business generation and asset quality.

HSBC’s performance is strong, on the back of improved interest income and one-off M&A gains (BNP Paribas also benefits from the latter).

Note: The vertical axis cuts off at 25%, so UBS’ H1 2023 result of 83.1% and its 2023f result of 31.6% are not shown. The letters in brackets denote the stand-alone credit profile (SACP). a--Actual. f--Forecast. Source: S&P Global Ratings.
New loan loss provisions to average customer loans (%)

- European G-SIBs did not report a major evolution of their asset quality metrics in the first half of 2023.

- The cost of risk was largely down year-on-year in the second quarter, due to the base effect from the second quarter of 2022, when many banks took provisions against the economic downturn triggered by Russia's invasion of Ukraine.

- G-SIBs' guidance is for stable cost-of-risk and delinquency ratios in the near future.

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

The letters in brackets denote the stand-alone credit profile (SACP). a--Actual; f--Forecast. Source: S&P Global Ratings.
RAC ratios tend to be stable. This is also true for the lowest-capitalized banks in this peer group, UniCredit and BNP Paribas.

- **UBS** is a clear outlier at the upper end of the spectrum. We expect the recent Credit Suisse acquisition will keep the ratio below 15% over the medium term.

- For most banks, we expect the shareholder payout will be limited to earnings and hence have no impact on the RAC ratios.
Primary Authors

Nicolas Charnay  
Sector Lead  
+44 69 33 999 218  
nicolas.charnay@spglobal.com

Giles Edwards  
Sector Lead  
+44 20 7176 7014  
giles.edwards@spglobal.com

Claudio Hantzsche  
Associate  
+44 69 33 999 188  
claudio.hantzsche@spglobal.com

Karim Kroll  
Rating Analyst  
+44 69 33 999 169  
karim.kroll@spglobal.com

Analytical Contacts

Regina Argenio  
UniCredit  
+39 0272 111 208  
regina.argenio@spglobal.com

Richard Barnes  
HSBC, Deutsche Bank  
+44 20 7176 7227  
richard.barnes@spglobal.com

Anna Loizmann  
UBS  
+44 69 33 999 166  
anita.loizmann@spglobal.com

Philippe Raposo  
Société Générale  
+33 14 420 7377  
philippe.raposo@spglobal.com

Nicolas Malaterre  
BPCE, BNP Paribas  
+33 14 420 7324  
nicolas.malaterre@spglobal.com

François Monéger  
Groupe Crédit Agricole  
+33 14 420 6688  
francois.moneger@spglobal.com

Elena Iparraguirre  
Santander  
+34 91 389 6963  
elena.iparraguirre@spglobal.com

Anastasia Turdyeva  
ING  
+353 1 568 0622  
anastasia.turdyeva@spglobal.com

Shinoy Varghese  
Standard Chartered  
+65 6597 6247  
shinoy.varghese@spglobal.com

Natalia Yalovskaya  
Barclays  
+44 20 7176 3407  
natalia.yalovskaya@spglobal.com
Related Research

Credit research on European banks

• What An Acceleration Of Quantitative Tightening Could Mean For Eurozone Banks, Sept. 13, 2023
• EU Banks Resist Tough Assumptions In Latest Stress Tests, Aug. 1, 2023
• European Banks: Potential Interest Rate Volatility Calls For Caution, July 19, 2023
• Latest BoE Stress Test Signals U.K. Banks’ Resilience To A Severe Downturn, July 12, 2023
• European Banks: Protecting Liquidity Will Come At An Increasing Cost, June 29, 2023
• EMEA Financial Institutions Monitor 2Q2023: Steering Through Volatility, May 24, 2023
• How The EU’s Bank Crisis Management Reforms Could Affect Ratings, April 25, 2023
• Credit FAQ: Spotlight On Refinancing Risks In European Commercial Real Estate, April 24, 2023
• European Banks’ Asset Quality: Tougher Times Ahead Require Extra Caution, April 20, 2023

Recent bulletins and rating action news on European G-SIBs

• Credit Suisse Entities Upgraded To ‘A+’ On Improved Support Prospects; Ratings On UBS Entities Affirmed, Sept. 7, 2023
• Various Rating Actions Taken On Credit Suisse And UBS Group Entities After Merger Completion, June 12, 2023
• Barclays PLC Upgraded To ‘BBB+’ On Business Diversification And Resilient Performance; Outlook Stable, May 19, 2023
• Deutsche Bank Outlook Revised To Positive On Strengthening Resilience And Performance; Ratings Affirmed, May 17, 2023
• Deutsche Bank’s First Quarter Earnings Show Resilience To Sector Volatility, April 27, 2023

Previous European G-SIB monitor publication

European G-SIBs Monitor
H1 2023
Weathering Market Volatility
S&P Ratings

Latest full analyses on European G-SIBs

• Standard Chartered PLC; (Holding Co.), Sept. 19, 2023
• UBS Group AG, Aug. 8, 2023
• Société Générale, July 31, 2023
• Banco Santander S.A., July 27, 2022
• Barclays PLC, June 30, 2023
• BPCE, June 30, 2023
• HSBC Holdings PLC, June 29, 2023
• UniCredit SpA, June 12, 2023
• Deutsche Bank AG, May 31, 2023
• BNP Paribas, May 17, 2023
• Crédit Agricole S.A., May 2, 2023