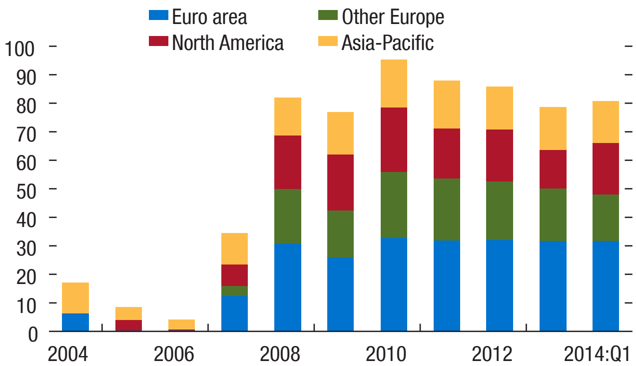
Figure 1.17. Bank Balance Sheets and Profitability *(continued)*

...leading many banks to miss return expectations.

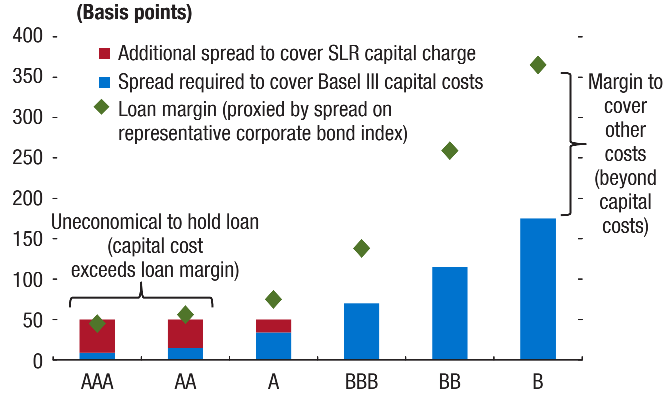
5. Banks with Return on Equity Lower than the Cost of Equity
(Percent of sample assets)



Sources: Bloomberg L.P.; and IMF staff calculations.
Note: Based on a sample of about 300 large banks. See note to Figure 1.16 for the countries in each region.

Regulatory reforms are changing banks' incentives.

6. Impact of Leverage Ratio on Holding a Corporate Loan
(Basis points)



Sources: Bloomberg L.P.; European Central Bank; and IMF staff calculations.
Note: The blue bars measure the minimum return over U.S. dollar Libor (London Interbank Offered Rate) necessary to cover the Basel III capital costs associated with a U.S. corporate loan for a representative large bank under the Internal Ratings Based model. In this stylized example, the capital cost for an A-rated loan is about 33 basis points (bps) (assuming a 35 percent risk weight × 9.5 percent Tier 1 ratio × 10 percent return on equity target). The red bars measure the additional spread (over U.S. dollar Libor) to cover the Supplementary Leverage Ratio (SLR) capital costs. The 50 bps floor is equal to 100 percent leverage exposure × 5 percent SLR × 10 percent return on equity target. The diamonds represent the current loan margin proxied by a representative U.S. corporate bond index spread (over U.S. dollar Libor). The difference between the loan margin (diamonds) and the bars must be sufficient to cover operating expenses, other regulatory costs, and expected losses.