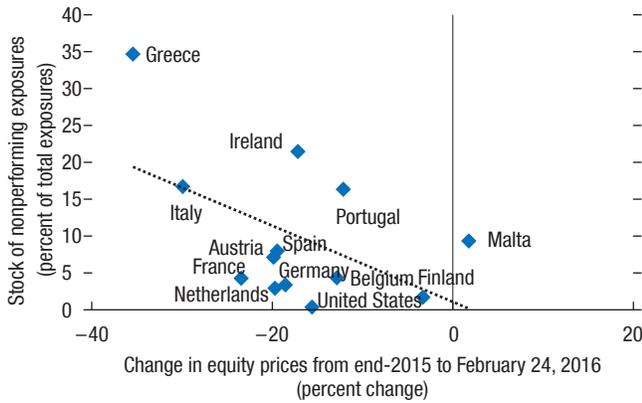


Figure 1.21. Valuations Reflect Legacy and Business Model Challenges

Euro area banks with high stocks of nonperforming loans ...

1. Change in Bank Equity Prices and Stock of Impaired Assets, Year to Date

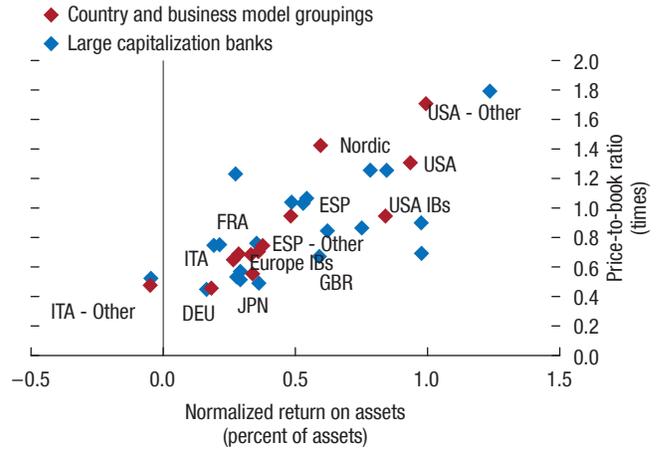


Sources: Bloomberg, L.P.; European Banking Authority Transparency Exercise 2015; and IMF staff calculations.

Note: Nonperforming exposures as of end-June 2015 for European banks; U.S. data are latest available ratio of nonperforming assets to total assets.

... and low profitability were hit the hardest.

2. Advanced Economy Bank Profitability and Valuations

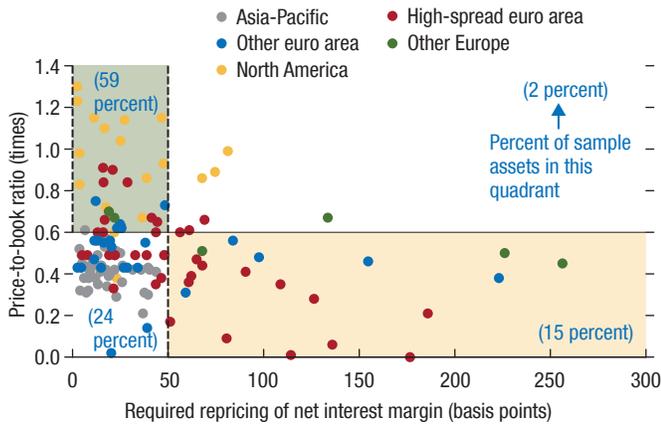


Sources: Bloomberg, L.P.; and IMF staff calculations.

Note: Data labels in the figure use International Organization for Standardization country codes. IB = investment bank; Other = listed banks with under \$500 billion in assets.

Business models are under strain in a low-for-long environment ...

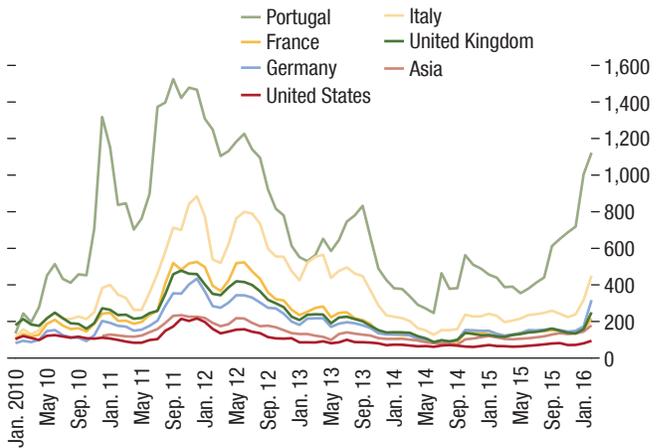
3. Bank Valuations and Margin Increase Required to Reach 10 Percent Return on Equity



Sources: Bloomberg, L.P.; SNL Financial; and IMF staff calculations.
 Note: Banks with required net interest margin repricing of zero are omitted from the chart for clarity. Repricing needs are based on 2015:Q3 or latest available data on a sample of more than 300 advanced economy banks. High-spread euro area countries = Cyprus, Greece, Ireland, Italy, Portugal, Slovenia, and Spain. Other euro area = Austria, Belgium, Finland, France, Germany, Luxembourg, Malta, Netherlands, and Slovak Republic. Other Europe = Denmark, Sweden, Switzerland, and United Kingdom. Asia Pacific = Australia, Japan, and Singapore. North America = Canada and United States.

... and funding costs rose sharply in reaction to earnings and bail-out concerns.

4. Credit Default Swap Spreads for Subordinated Bank Debt (Basis points)



Sources: Bloomberg, L.P.; and IMF staff calculations.

Note: Data depict asset-weighted averages.