Bank profitability has fallen...

1. Drivers of the Decline in Advanced Economy Bank Return on Equity (Percentage points)

- Higher level of capital: 3.4
- Net interest income: 1.3
- Trading profit: 1.8
- Loan loss provisions: 0.3
- Other profit: 0.6

Overall impact: -1.5

Return on equity (2000–06) vs Return on equity (2014)

Sources: Bloomberg, L.P.; and IMF staff estimates.
Note: Based on a sample of more than 300 banks.

...and is reflected in market prices.

3. Bank Return on Equity and Price-to-Book Ratio

- Asia and Pacific
- North America
- Other Europe
- Euro Area

Approximate cost of equity: 10th-90th percentile

Return on equity surplus vs Return on equity gap

Sources: Bloomberg, L.P.; and IMF staff calculations.
Note: The size of the circles is proportional to bank assets in 2014.

Questions about bank capital quality remain.

2. Bank Return on Equity (Percent)

- Euro area
- Other Europe
- North America
- Asia and Pacific

Sources: Bloomberg, L.P.; and IMF staff estimates.
Note: Based on a sample of more than 300 banks.

4. Euro Area Bank Tier 1 Capital Ratios, 2013 (Percent)

- More clarity about capitalization
- Less clarity about capitalization
- Fully harmonized ratio

Sources: European Banking Authority; European Central Bank; and IMF staff calculations.
Note: The fully harmonized ratio uses the “fully loaded” definition of capital under the Capital Requirements Directive (CRD-IV) and the harmonization of asset quality definitions from the European Central Bank’s Comprehensive Assessment.