S&P Global Ratings

RatingsDirect®

Chasing Shadows Or Rainbows? Sustainable Profitability Still Eludes Some Major European Banks

March 15, 2018

PRIMARY CREDIT ANALYST

Giles Edwards
London
(44) 20-7176-7014
giles.edwards
@spglobal.com

SECONDARY CONTACTS

Bernd Ackermann
Frankfurt
(49) 69-33-999-153
bernd.ackermann
@spglobal.com

Nigel Greenwood
London
(44) 20-7176-1066
nigel.greenwood
@spglobal.com

HongTaik Chung, CFA
Hong Kong
(852) 2533 3597
hongtaik.chung
@spglobal.com

Sadat Preteni
London
(44) 20-7176-7560
sadat.preteni
@spglobal.com

Harm Semder
Frankfurt
(49) 69-33-999-158
harm.semder
@spglobal.com

See complete contact list at end of article.

S&P Global Ratings' top 50 rated European banks turned a corner last year, a decade after the start of the financial crisis. Many achieved clear progress, culminating in a raft of upgrades and positive outlook revisions across a number of European banking systems in the third and fourth quarters. At the end of the 2017 reporting season, bank profitability and asset quality have generally improved, and for many banks we expect this to continue on a gradual upward trend in 2018.

Not all major European banks are firing on all cylinders. Many still need to optimize their business and operating models to ensure sufficient and sustainable profitability. They'll also need to invest wisely to ensure that they leverage the benefits of the digital era, fend off nimble emerging challengers, and deliver effective measures against disruption and franchise damage from cyber-attacks and customer data mismanagement. They should also recognize that the current benign economic conditions, or the current favorable funding markets, may not persist.

Overview

- Conditions for the top 50 rated European banks are improving, culminating in many positive rating actions in the third and fourth quarters of 2017.
- However, we believe six major banks in strong European banking systems have yet to optimize their business and operating models to ensure sufficient and sustainable profitability.
- Through 2018, it should become clearer whether these banks can execute strategies to close the gap on their competitors.

Even against an improved--though hardly buoyant--economic backdrop, a cadre of major banks continues to lag the improvement of their closest peers in Europe and the U.S. over the past several years. We think that Barclays, Commerzbank, Credit Suisse, Deutsche Bank, RBS, and Standard Chartered have some way to go before they fully meet their financial targets and, in turn, shareholder expectations. Despite their challenges, they have strengthened their balance sheets, helping to maintain their high credit ratings. Aided by comfortable buffers of loss-absorbing capacity, this is even truer at the operating company level. Nevertheless, our bank rating methodology recognizes solid businesses, not just solid balance sheets. And while some of these banks are further advanced than others, their in-flux business models and relatively weaker earnings prospects are still evident in their credit ratings and in their equity valuations when compared against better-performing peers.

Barclays, Commerzbank, Credit Suisse, Deutsche Bank, RBS, and Standard Chartered are some way off their financial targets

We do not expect 2018 to witness a remarkable leap forward in fortunes. The revenue environment lacks strongly supportive tailwinds, and restructuring can be a slow process when management targets sustainable change rather than quick results. Still, our ratings anticipate that these banks' management teams will make demonstrable progress in 2018 to prove that the current strategy is well-founded and well-executed. If things go particularly well, we could raise our issuer credit ratings (ICRs) on the soon-to-be-ringfenced subsidiaries of RBS. For Deutsche Bank and Commerzbank (both A-/Negative/A-2), it could mean a reversion to a stable outlook. For all six, though, the next positive development--if it comes--would likely only lessen residual downside risks for subordinated creditors, rather than offer them upside. By contrast, where we see stalling progress, setbacks, missed financial targets, or material revisions to strategy, we would likely reflect this in negative rating actions.

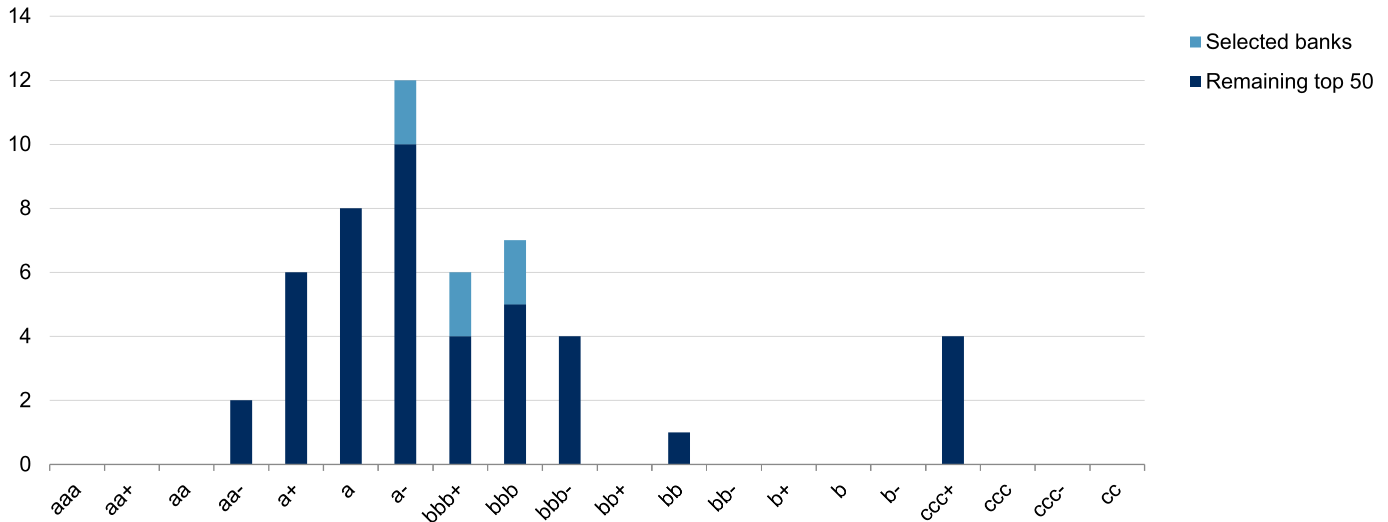
By the end of 2018, we expect that for many of these banks it will be clearer whether their management teams are able to close the gap on their nearest competitors, or else have to return to the drawing board.

Why Six Underperformers Are Rated Lower Than Peers

Despite their challenges, we continue to rate the six underperforming banks quite highly. In terms of intrinsic creditworthiness, which we reflect in our ratings through stand-alone credit profiles (SACPs) or unsupported group credit profiles (UGCPs), they are in the middle of the pack among the top 50 European banks. However, as leading banks in strong European banking systems, these banks are notable because they are not rated as highly as their closest peers. Furthermore, despite a general economic upturn, for many of them we currently see limited ratings upside in the next 18-24 months.

2007002 | 301015591

Chart 1



Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

Among the six banks, we see Credit Suisse and Standard Chartered as the strongest intrinsically, and also relatively well-advanced in their turnaround. We assess their UGCP at 'a-', on a par with many better-performing national champions around Europe like Societe Generale, Lloyds, and Santander. However, if we look at their closest peers--UBS and HSBC--their performance continues to lag. We recognise this relative underperformance in two ways:

- In our assessment of the banks' business position. In both cases, we revised this some years ago to adequate from their longstanding strong assessment. We have maintained a strong assessment for many leading banks who faced a smaller task to adjust (if at all) and now appear well-placed to meet shareholder expectations.
- By constraining the ICRs on the operating companies. On a bottom-up basis, we could already rate Credit Suisse AG at 'A+', and Standard Chartered Bank would approach this level if the group were to further strengthen its bail-in buffers.

Table 1

Rating Component Scores--The Six Banks And Their Nearest Peers

Institution	Opco LT ICR/Outlook	Anchor	Business position	Capital and earnings	Risk position	Funding and liquidity	UGCP or SACP	Support type	No. of notches of support	Additional factor adjustment
Credit Suisse Group AG*	**A/Stable**	**a-**	**Adequate (0)**	**Strong (1)**	**Moderate (-1)**	**Avg/Adequate (0)**	**a-**	**ALAC**	**2**	**-1**
UBS Group AG*	A+/Stable	a-	Strong (1)	Strong (1)	Moderate (-1)	Avg/Adequate (0)	a	ALAC	1	0
Morgan Stanley*	A+/Stable	bbb+	Strong (1)	Strong (1)	Moderate (-1)	Avg/Adequate (0)	a-	ALAC	2	0

Table 1

Rating Component Scores--The Six Banks And Their Nearest Peers (cont.)

Standard Chartered PLC*	**A/Stable**	**bbb+**	**Adequate (0)**	**Strong (1)**	**Moderate (-1)**	**Above Avg/Strong (+1)**	**a-**	**ALAC**	**1**	**0**
HSBC Holdings PLC*	AA-/Stable	bbb+	Very Strong (2)	Adequate (0)	Strong (1)	Above Avg/Adequate (0)	a+	ALAC	1	0
Barclays PLC*	**A/Stable**	**bbb+**	**Adequate (0)**	**Adequate (0)**	**Adequate (0)**	**Avg/Adequate (0)**	**bbb+**	**ALAC**	**2**	**0**
Commerzbank AG	**A-/Negative**	**a-**	**Moderate**	**Strong (1)**	**Moderate (-1)**	**Avg/Adequate (0)**	**bbb+**	**ALAC**	**1**	**0**
Deutsche Bank AG	**A-/Negative**	**bbb+**	**Adequate (0)**	**Adequate (0)**	**Moderate (-1)**	**Avg/Adequate (0)**	**bbb**	**ALAC**	**2**	**0**
Societe Generale	A/Stable	bbb+	Strong (1)	Adequate (0)	Adequate (0)	Avg/Adequate (0)	a-	ALAC	1	0
Goldman Sachs Group Inc. (The)*	A+/Stable	bbb+	Strong (1)	Adequate (0)	Moderate (-1)	Avg/Adequate (0)	bbb+	ALAC	2	0
The Royal Bank of Scotland Group PLC*	**BBB+/Positive**	**bbb+**	**Adequate (0)**	**Adequate (0)**	**Moderate (-1)**	**Avg/Adequate (0)**	**bbb**	**ALAC**	**2**	**-1**
Lloyds Banking Group PLC*	A/Positive	bbb+	Strong (1)	Adequate (0)	Adequate (0)	Avg/Adequate (0)	a-	ALAC	1	0

ALAC--Additional loss-absorbing capacity. ICR--Issuer credit rating. LT--Long-term. Opco--Operating company. SACP--Standalone credit profile. UGCP--Unsupported group credit profile. *Nonoperating holding company. Data as of March 9, 2018.

The ICR constraint reflects our observation that 'A+' rated peers tend to exhibit not only solid balance sheets, but also leading franchises in good banking markets. Aided by disciplined risk appetite and cost efficiency, these factors allow management to deliver strong, reliable risk-adjusted shareholder returns.

Sustainable and well-balanced profitability is another key determinant in our assessment of a bank's business position. These six banks are far from alone in having to adjust their business and operating models. However, it is no coincidence that they all historically had a sizable presence in wholesale markets activity. 'A+' rated peers tend to exhibit not only solid balance sheets, but also leading franchises in good banking markets Within this, capital markets remains one of the most difficult business lines to achieve solid risk-adjusted returns in the current environment. Headwinds stem from low European interest rates and changeable client activity, toughened regulatory capital requirements, regulatory change from MiFID II (the second act of the EU's Markets in Financial Instruments Directive), and heavy competition from the rejuvenated U.S. bulge bracket banks. In some cases, these banks started serious restructuring significantly later than their peers.

It remains possible that Credit Suisse will, in time, emulate UBS and merit a stronger business position assessment. However, for now this a remote prospect. A higher ICR at the operating company level would likely stem first from our view that it is no longer a clear negative outlier. Indeed, since Credit Suisse and Standard Chartered both (only) carry a stable outlook, our ratings currently reflect uncertainties around not just when these banks will demonstrate comparable strength to higher-rated peers but also, to some extent, whether this will happen.

We also rate Barclays 'A' at the operating company level, but with a lower UGCP of 'bbb+'. Again, we historically assessed business position higher, but revised it downward in 2013 to reflect the challenges the bank faced and the multi-year nature of the restructuring that it had embarked on.

In our view, management has made good progress, but it is uneven: Barclays' franchise remains more biased toward capital markets activity than many European banks. In 2012, the bank reported revenues of £29 billion, in 2017 they were £21 billion--but the question is whether this refocused group has now shrunk to greatness or else lost something along the way.

By contrast, we see Deutsche Bank as still facing bigger problems, largely due to its fixed income-heavy profile and the former management team's slow recognition of the need to restructure the business model (relative to peers such as the U.S. banks and UBS). Our ratings acknowledge the inherent risks in what remains a multiyear project to restructure operations, rebuild reputation and franchise, and deliver on revised financial targets. Indeed, the negative outlook reflects our continued view that Deutsche Bank's strategy contains significant execution risk. At a time when other banks are moving forward, a further setback would, in our view, likely mark it out as a sustained relative underperformer. While less likely, we could also lower the ICR if the additional loss-absorbing capacity (ALAC) buffer falls short of our expectations.

We see Commerzbank as being slightly stronger intrinsically than Deutsche Bank. In part, this is because its restructuring is further advanced, aided by a pivot toward retail banking. However, it primarily reflects the bank's stronger capitalization, as measured by our projected risk-adjusted capital (RAC) ratio. Still, we have some doubts about the sustainability of this capitalization, and we see challenges for management to deliver sufficient shareholder returns absent a strong recovery in interest rates. For example, we anticipate that the bank will generate only a 3%-6% return on equity (ROE) over our forecast horizon through 2019. In our view, it is this profitability and associated strategic challenge that led press reports to cite Commerzbank as a potential takeover target during autumn 2017. This might continue until management can demonstrate how the bank will cover its cost of equity on a sustainable basis through a full business cycle.

The decade-long overhaul of RBS is well-documented. Management has long since addressed the group's balance sheet vulnerabilities--its S&P Global Ratings' capitalization (RAC) and loss-absorbing capacity (ALAC) ratios are now toward the top end of those we see among the major European banks, and its asset quality is no longer a major outlier among U.K. banks. Like Barclays, RBS management has dramatically refocused and shrunk the group--it sold RBS Insurance in 2010, Direct Line Group through 2013/2014, Citizens in 2015, and has heavily pared back Ulster Bank and its wholesale markets business. However, RBS has struggled to shrug off some rather more intractable legacy problems, not least residual big ticket litigation items, and its struggle and ultimate failure to address the original EC state aid requirement to divest the Williams & Glyn "business". Distractions such as compliance with the new U.K. ringfencing requirements have not helped the underlying task either. Nevertheless, while RBS starts 2018 with the lowest UGCP and ICRs of any of these six banks, our positive outlook on its soon-to-be-ringfenced subsidiaries recognizes that the bank is now building some forward momentum.

RBS is now building some forward momentum, hence our positive outlook on the soon-to-be-ringfenced subsidiaries

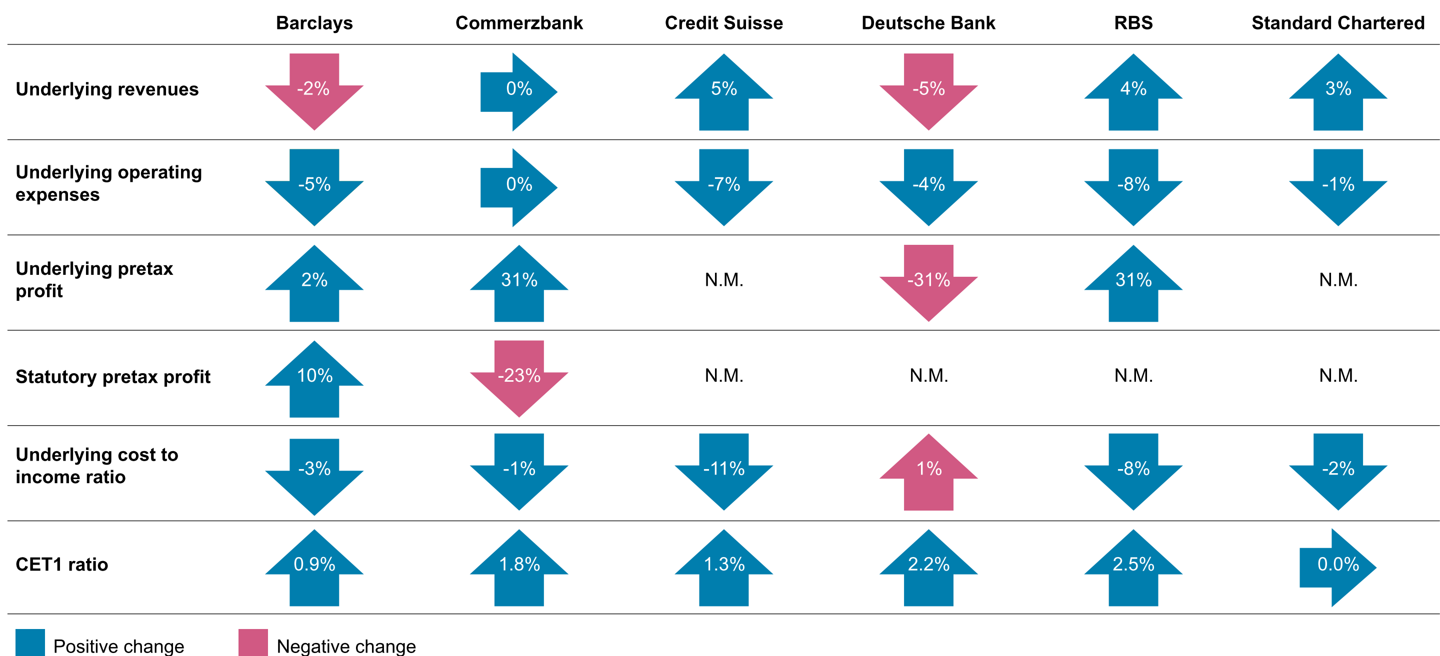
Reasons To Be Cheerful

U.S. deferred tax asset write-offs following the sharp decline in the U.S. corporation tax rate skewed 2017 statutory profitability for many banks. As a result, Credit Suisse and Deutsche Bank both reported statutory losses, and yet their common equity tier 1 (CET1) capital ratios all rose, as did those of the other three banks, since their tax loss carryforwards were already deducted. The equity raisings executed by Credit Suisse and Deutsche Bank were also key factors here.

Putting this aside, 2017 marked an improved year for underlying revenues, efficiency, and pretax profits for Credit Suisse, RBS, and Standard Chartered. At 58% and 62% respectively, underlying efficiency for RBS and Standard Chartered implies significantly enhanced loss-absorbing capacity

before exposing the capital base. Barclays' underlying efficiency and pretax profits also rose, despite it being an exceptionally tough year for investment banks and the group's consequent decline in revenues. Commerzbank booked slightly higher underlying pretax profits thanks to flat revenues and costs, but statutory pretax profit slipped due to higher restructuring charges and lower exceptional income. Results for Deutsche Bank were also uneven. It felt the revenue chill from the investment banking environment and benefited from some of the ongoing efficiency measures, though management's decision to protect the franchise by restarting bonuses (after a near-zero payout in 2016) neutered this. As a result, underlying pretax profits fell. Nevertheless, statutory pretax profits bounced back into the black thanks in large part to lower litigation costs and goodwill impairments.

More Ups Than Downs: Banks Made Moderate Progress During 2017



	Barclays	Commerzbank	Credit Suisse	Deutsche Bank	RBS	Standard Chartered
Underlying revenues	-2%	0%	5%	-5%	4%	3%
Underlying operating expenses	-5%	0%	-7%	-4%	-8%	-1%
Underlying pretax profit	2%	31%	N.M.	-31%	31%	N.M.
Statutory pretax profit	10%	-23%	N.M.	N.M.	N.M.	N.M.
Underlying cost to income ratio	-3%	-1%	-11%	1%	-8%	-2%
CET1 ratio	0.9%	1.8%	1.3%	2.2%	2.5%	0.0%

Positive change Negative change

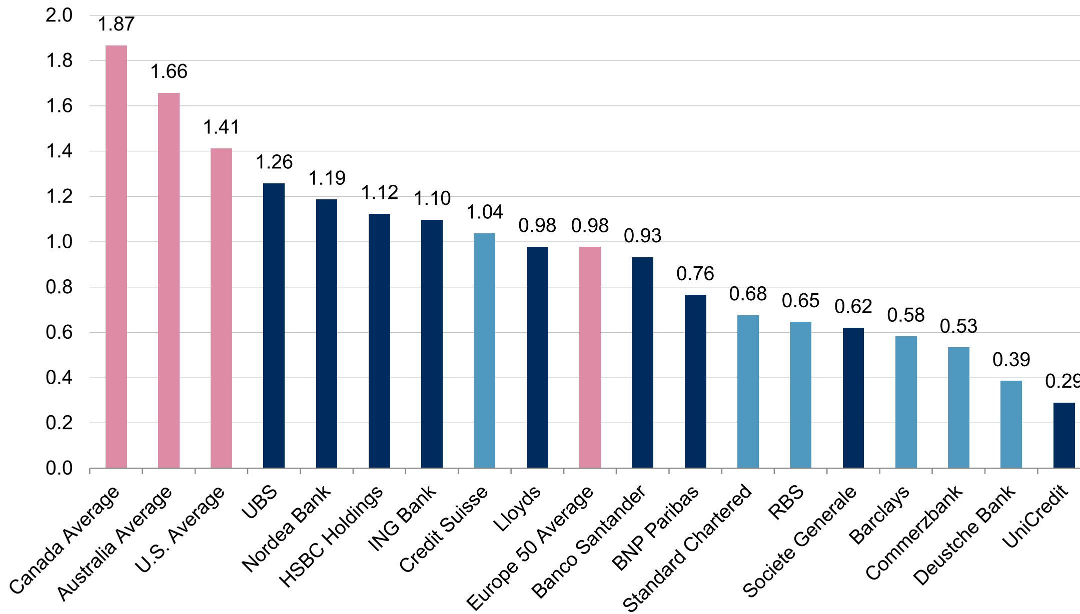
N.M.--Not meaningful. Chart shows percentage change from FY2016 to FY2017. Underlying figures are adjusted for litigation, restructuring/severance, DVA/own credit spreads and impairment of intangible assets, but include non-core activities. Capital ratios are as reported, and do not include the pro forma effects of IFRS 9 adoption. Source: Company reports, S&P Global Ratings.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

These banks' stock valuations generally reflect the story of a qualified improvement in earnings, slightly improved prospects for future shareholder distributions, and a now-extinguished risk of further capital raising. While price-to-book (PTB) ratios reflect many factors, we generally view improving ratios as an indication of stronger equity market sentiment about bank earnings prospects and the state of banks' balance sheets. The PTB ratios for major European banks have seen mixed fortunes since the end of 2016, but have typically risen overall. This trend has been more pronounced among the lower-valued banks, leading to an element of catch-up. Among the six banks, Credit Suisse made by far the most progress, and is now valued at a more respectable 1.0x book value--though it remains far behind UBS (1.3x) and more profitable peers in Australia, Canada, and the U.S. The valuations of Commerzbank and RBS have also improved meaningfully. By contrast, Barclays and Deutsche Bank saw almost no movement. With Commerzbank, it now sits barely above 0.5x book value, with Deutsche Bank even lower at 0.4x.

Chart 3

Price To Book Value

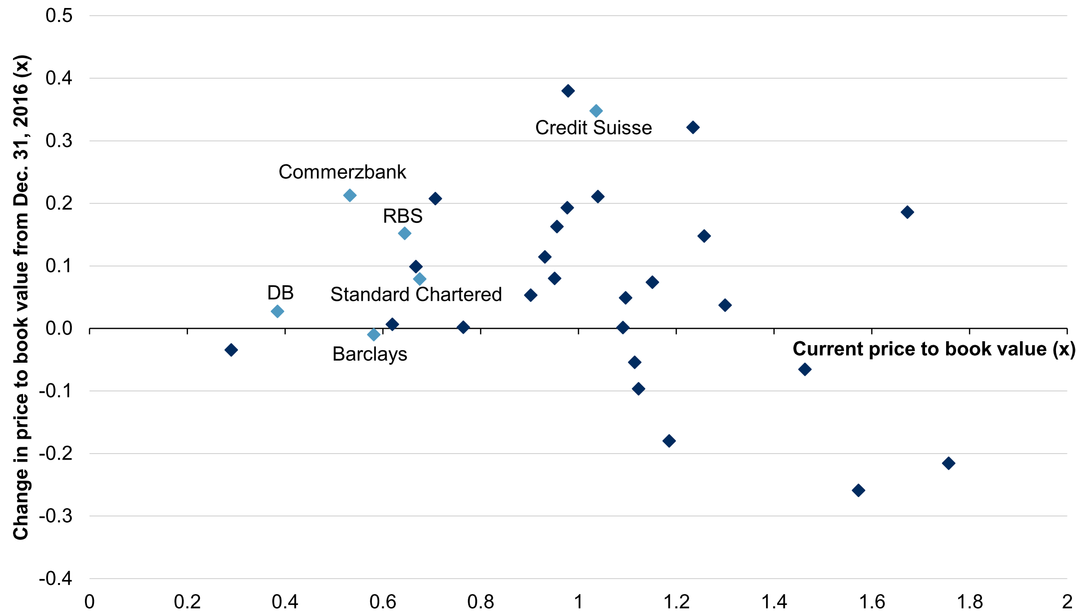


Data covers European top 50 banks (where available), plus U.S., Canadian, and Australian majors for comparison purposes.
Data as of March 8, 2018. Source: S&P Capital IQ.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 4

Change In Price To Book Value For Top European Banks Since End-2016



Data covers European top 50 banks (where available). Data as of March 8, 2018. Source: S&P Capital IQ.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

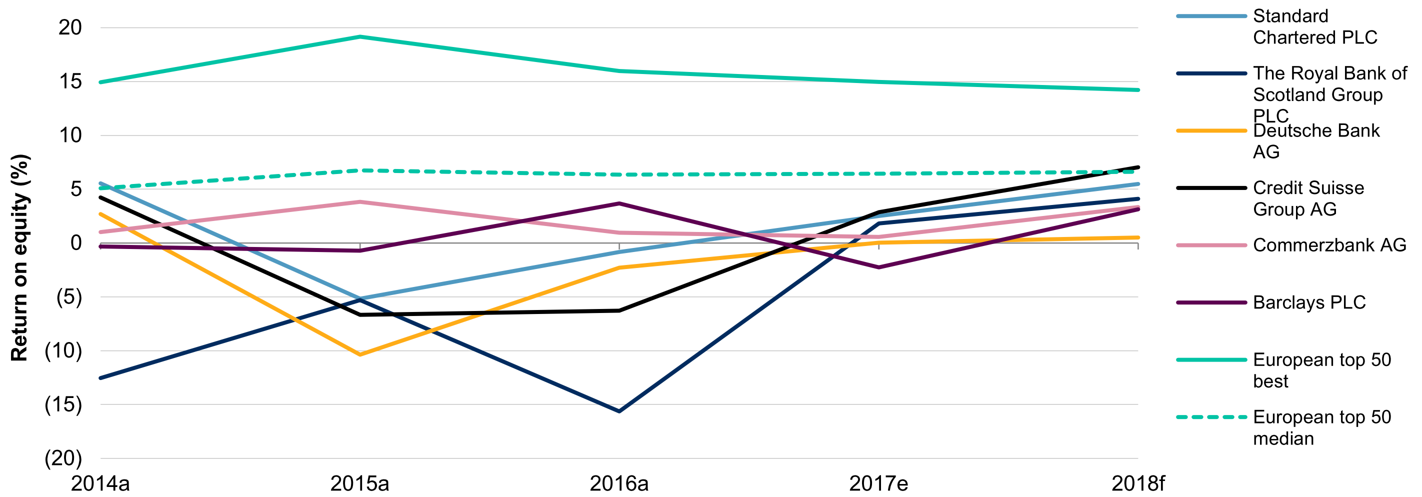
Brighter Prospects In 2018?

Even if, as we expect, the economic and political environment remains reasonably supportive in 2018, we expect 2018 to be far from stellar for European bank earnings. We anticipate that the median ROE of the top 50 banks will creep up to slightly over 6%, against a perceived medium-term cost of capital for most banks of 8%-10%. Among the top 50, we expect only 14 banks to generate ROE of more than 8% in 2018, and 10 to generate ROE of more than 10%. The majority will likely be stuck in the 3%-7% range, including all six underperforming banks except Deutsche Bank. We expect them to make further progress on earnings during 2018, but not to improve significantly. Indeed, while many among them have management targets that envisage return on tangible equity (ROTE) of at least 10% in a normalized operating environment, 2018 generally comes too early in the execution of their plans and is too unlikely to meet this description anyhow.

We expect 2018 to be far from stellar for European bank earnings

Chart 5

Return On Equity, Compared With European Top 50 Peers



Source: S&P Global Ratings. Data covers European top 50 banks. Data as of Jan. 25, 2018, except 2017 ratios where actuals are now available. a--Actual. e--Estimate. f--Forecast.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

Table 2

Ratings Data And Drivers

Company	UGCP or SACP	Opco LT ICR/Outlook	Holdco LT ICR/Outlook	Senior nonpreferred/holdco senior issue credit rating	High trigger AT1 issue credit rating	Principal rating driver(s) - for nonstable outlooks	Summary
Credit Suisse Group AG	a-	A/Sta	BBB+/Sta	BBB+	BB-	--	UGCP unlikely to change in the near term. Opco ICRs could rise if we see more progress on restructuring, improving comparability with A+ peers.
Standard Chartered PLC	a-	A/Sta	BBB+/Sta	BBB+	BB-	--	UGCP unlikely to change in the near term. Opco ICRs could rise if we see more progress on restructuring, improving comparability with A+ peers, and more ALAC issuance.
Barclays PLC	bbb+	A/Sta	BBB/Sta	BBB	B+	--	UGCP and GCP unlikely to move up in the near term, so remote upside for opco/holdco ICRs. Most likely negative pressure would be from faltering earnings recovery, and could affect opco and holdco ICRs.
Commerzbank AG	bbb+	A-/Neg	--	BBB	--	SACP	We could lower the SACP if the bank's capitalization and earnings fail to improve to strong levels, as shown by our forecast of an RAC ratio above 10%.

Table 2

Ratings Data And Drivers (cont.)

Company	UGCP or SACP	Opco LT ICR/Outlook	Holdco LT ICR/Outlook	Senior nonpreferred/holdco senior issue credit rating	High trigger AT1 issue credit rating	Principal rating driver(s) - for nonstable outlooks	Summary
Deutsche Bank AG	bbb	A-/Neg	--	BBB-	--	Imposition of negative ICR adjustment§	If the bank remains a relative underperformer in its core businesses. Whether ALAC remains sustainably above our 8.5% threshold is a secondary source of concern.
The Royal Bank of Scotland Group PLC	bbb	BBB+/Pos	BBB-/Sta	BBB-	B	Removal of negative ICR adjustment§	If a continued improvement in operating and financial performance leads us to no longer regard RBS as underperforming similarly rated peers in terms of statutory profits.

Data as of March 9, 2018. ALAC--additional loss absorbing capacity. Holdco--holding company. ICR--Issuer credit rating. Opco--operating company. RAC--Risk-adjusted capital. SACP--stand-alone credit profile. UGCP--unsupported group credit profile. *In all cases, see our institution-specific research for full details of the rating drivers. §Would affect opco issuer credit rating only.

In contrast to Barclays, RBS has become a straightforward equity investment story with diminished scope for surprises; underlying RBS has become a straightforward equity investment story with diminished scope for surprises ROE is now above 10%, and the bank is a step nearer to restarting dividends. We regard this progress as credit positive. The U.K. government might start divesting its 73% stake, but our view of the ratings on RBS does not depend on this one way or the other. More importantly, our ratings already anticipate that RBS will settle with the U.S. Department of Justice (DOJ) related to its RMBS investigations in the coming months, and that this will exceed RBSG's existing on-balance-sheet provisions but be affordable for RBS. This would substantially close out the group's legacy conduct and litigation issues. This aside, we expect that RBS will be able to report satisfactory underlying net profit for 2018. If the bank is on track to deliver such improvements in financial performance, and assuming that a "hard" Brexit scenario does not play out, we could revise our view that RBS is underperforming similarly rated peers.

By contrast, Deutsche Bank is set to remain mired in restructuring until 2020, but the results of these programs should become increasingly visible in the bank's published earnings. At a minimum, we anticipate that it will look to make progress with the Postbank integration and divest a minority stake in DWS (formerly Deutsche Asset Management). The downside risk to earnings from litigation has lessened as legacy cases have been concluded, and resolution of the main outstanding issues (such as an ongoing U.S. investigation into Russian mirror trading allegations) would further reduce the scope for future negative surprises. However, the real art will be for management to balance two congruent, but at times competing, needs:

- To drive significant further efficiency savings out of the corporate and investment bank business and related infrastructure.
- To maintain the bank's leading franchise in fixed income and currencies activity, while optimizing the offering in equities.

This remains a tough ask, and could take until 2019 before it is fully clear whether it has been successful.

The current "Commerzbank 4.0" strategy is the tail end of a multiyear restructuring initiated after the bank received support from the German government in the wake of its acquisition of Dresdner Bank in 2008. The strategy is centered on a stringent focus on business backed by the bank's core competencies and franchise, the digitalization of the bank, reducing complexity, and efficiency measures. Commerzbank aims at a ROTE of over 8% in 2020 and a cost-to-income ratio of below 66%. We believe that Commerzbank will continue to find it tough to deliver sufficient shareholder returns absent a strong recovery in interest rates. We anticipate that the bank will generate only a 4%-6% ROE in 2018.

Notwithstanding these banks' strengthened capital ratios and likely increasing shareholder expectations about distributions, we assume that they will all remain cautious about dividends and, especially, buybacks while core profitability remains depressed and the scope for downside risk is more than theoretical.

We assume that they will all remain cautious about dividends and, especially, buybacks while core profitability remains depressed

Table 3

Banking Group/Issuer Credit Rating/Comments

Company	Rating	Comments	Analyst
Barclays PLC	BBB/Stable/A-2	Barclays reported 2017 statutory profit before tax on continuing operations of £3.5 billion, which was 10% higher than the amount reported in 2016. The increase can be attributed, in part, to a decline in operating expenses following the closure of the noncore division in July 2017. Lower total income was mainly driven by the Barclays International division, as the markets business recorded a 15% year-on-year decline. Overall, Barclays reported an attributable loss after taking into account a high tax charge and the loss on sale of discontinued operations (its African operations; BAGL). The CET1 ratio increased substantially to 13.3% from 12.4% as the group sold down its BAGL stake and completed its long years of restructuring.	Nigel Greenwood
Commerzbank AG	A-/Negative/A-2	Commerzbank reported 2017 profit before tax and minorities of €495 million, compared with €643 million the year before, including an anticipated €808 million one-time restructuring charge for its 2020 strategic plans. The bank reported a 7% year-on-year lower operating profit of €1.3 billion in 2017, but the bank saw a material net increase if adjusted for one-time and valuation effects. Net interest income increased slightly by 0.7% thanks to marked growth in its retail and small enterprises segment in particular, offsetting pressures from a very low interest rate environment and competitive margin pressures. Annual loan loss provisions declined by 13% to €781 million and the bank reported a materially improved 1.3% nonperforming loan ratio, after 1.6% in 2016. This was based on further material progress in reducing its residual risks from its nonstrategic asset portfolio, and we continue to consider these legacy exposures manageable and absorbable within pre-provision earnings. Accordingly, Commerzbank's fully phased-in CET1 ratio increased to 14.1% by year-end 2017, or 13.3% if adjusted for IFRS9 effects pro forma, up from 12.3% year-end 2016 mainly from further material de-risking.	Harm Semder
Credit Suisse Group AG	BBB+/Stable/A-2	Credit Suisse reported 2017 income before taxes of CHF1.8 billion, after a loss of CHF2.3 billion in 2016. Adjusted for major litigation charges (notably CHF2.7 billion in 2016) and other nonrecurring items as defined by Credit Suisse, income before taxes improved to CHF2.7 billion in 2017 from CHF0.6 billion the year before, which was supported by both rising revenues (+5%) and declining operating expenses (-7%). The improvement has been broad based across most of Credit Suisse's business units. The group benefited from rising revenues in its wealth management activties, lower charges from its Strategic Restructuring Unit, and more favorable investment banking and trading results. Overall, Credit Suisse reported a net loss attributable to shareholders of CHF1.0 billion after accounting for CHF2.7 billion tax expenses, mainly reflecting the re-assessment of deferred taxes resulting from the U.S. tax reform. The group's look-through CET1 ratio improved to 12.8% from 11.5%, benefiting from a CHF4.1 billion capital increase completed in June 2017.	Bernd Ackermann

Table 3

Banking Group/Issuer Credit Rating/Comments (cont.)

Company	Rating	Comments	Analyst
Deutsche Bank AG	A-/Negative/A-2	Deutsche Bank reported a statutory pre-tax profit of €1.3 billion in 2017, compared to a €0.8 billion pretax loss the year before. The bank reported a post-tax loss due to the writedown of deferred tax assets following US tax law changes, but this was capital-neutral. On an underlying basis, revenues fell 5% due to sustained weak client activity in the corporate & investment bank division. Despite this pretax profits benefited from the nonrecurrence of 2016's substantial litigation provisions, and nearly €1 billion of operating expense savings, despite the bank restoring bonus payments to staff. The CET1 ratio (fully-loaded basis) hit 14.0%, from 13.8% at the end of the third quarter, and 11.8% at end-2016, due mainly to the mid-year capital raise. Deutsche Bank's illustrative capital requirement for 2019 is 11.8% CET1 (assuming no change to the pillar 2 requirement). The leverage ratio remains a tighter constraint, however. It was 3.8% (fully-loaded basis), unchanged on the third quarter. The bank indicated a modest 0.2% hit from the introduction of IFRS 9 on Jan. 1, 2018.	Giles Edwards
Standard Chartered PLC	BBB+/Stable/A-2	Standard Chartered posted a statutory pre-tax profit of $2.4 billion in 2017, compared to $409 million the year before, benefitting from a sharp reduction in impairment losses to half of the level seen in 2016. Operating profit increased by 9% year-on-year to $4.2 billion, despite higher operating expenses including a 15% year-on-year increase in regulatory charges and higher variable pay from improved performance. Operating income increased by 3% compared to the prior year with the net interest margin improving slightly to 1.6%, while trading income was negatively impacted by the low market volatility. Other significant items include a €320 million goodwill impairment related to its Taiwanese subsidiary. In terms of bottom-line earnings, the group saw its effective tax rate increase to 47.5% from the impact of US Tax Reform. As a result of the improved underlying performance the group restarted dividends, after they were cancelled two years ago in order to rebuild capital. The group's CET1 ratio remained stable at 13.6%.	HongTaik Chung
The Royal Bank of Scotland Group PLC	BBB-/Stable/A-3	RBS reported an attributable profit of £752 million in 2017--its first in ten years--compared with a loss of £7 billion in 2016. The results benefited from higher income and lower costs, including sharp reductions across conduct, litigation, and restructuring charges. The bank's reported operating profit of £2.2 billion was a considerable improvement from the £4.1 billion operating loss in 2016. Among other factors, net interest income increased by 3.2% in the year, as increased volumes and deposit repricing benefits more than offset the 5bps net interest margin decrease to 2.13%. RBS also continued to make progress in reducing costs, as operating expenses declined by £670 million or 8.1% on the back of improved efficiency, while nonrecurring charges related to restructuring and conduct and litigation dropped materially to £2.9 billion, from just under £8 billion in 2016. RBS' impairment losses increased slightly in 2017, but remained relatively low at £493 million compared with £478 million in 2016. The group's CET1 ratio increased by 250bps to 15.9% at year-end 2017, supported by lower risk-weighted assets mainly due to the continued runoff of the legacy business.	Sadat Preteni

bps--Basis points. CET1--Common equity tier 1. CHF--Swiss franc.

Related Research

- Largest U.K. Banking Groups Boast Higher Statutory Pre-Tax Profits But Returns Disappoint, March 8, 2018
- Bulletin: Higher Profits Would Lift Standard Chartered's Credit Quality Amid Steady Improvement; Ratings Unaffected By 2017 Result, Feb. 28, 2018
- The Top Trends Shaping Major European Banks In 2018, Jan. 25, 2018
- Barclays PLC, Jan. 11, 2018
- Standard Chartered PLC (Holding Co.); Standard Chartered Bank (Lead Bank), Dec. 11, 2017
- Deutsche Bank, Nov. 25, 2017
- RBS Ring-Fenced Subsidiaries Outlooks Revised To Positive; Non-Ring-Fenced Entities To Stable; Ratings Affirmed, Nov. 17, 2017

- Commerzbank And Pfandbriefbank Outlooks Stay Negative, Despite Stable Economic Risk Trend In Germany; 'A-/A-2' Affirmed, Oct. 11, 2017
- Credit Suisse Group AG (Holding Co.); Credit Suisse AG (Lead Bank), July 3, 2017

Only a rating committee may determine a rating action and this report does not constitute a rating action.

Contact List

PRIMARY CREDIT ANALYST

Giles Edwards
London
(44) 20-7176-7014
giles.edwards@spglobal.com

SECONDARY CONTACT

Bernd Ackermann
Frankfurt
(49) 69-33-999-153
bernd.ackermann@spglobal.com

SECONDARY CONTACT

Nigel Greenwood
London
(44) 20-7176-1066
nigel.greenwood@spglobal.com

SECONDARY CONTACT

HongTaik Chung, CFA
Hong Kong
(852) 2533 3597
hongtaik.chung@spglobal.com

SECONDARY CONTACT

Sadat Preteni
London
(44) 20-7176-7560
sadat.preteni@spglobal.com

SECONDARY CONTACT

Harm Semder
Frankfurt
(49) 69-33-999-158
harm.semder@spglobal.com

ADDITIONAL CONTACT

Financial Institutions Ratings Europe
FIG_Europe@spglobal.com

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.