

## Global Banks: US banks are burdened with unrealised losses

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US banks are more exposed to the potential impact of higher interest rates on the valuation of their securities. This is due to the higher balances of Hold-to-Maturity (HTM) and Available-for-Sale (AFS) securities on their balance sheets compared to their UK and Eurozone peers.

- The deposit growth rate of the US banks was higher compared to their peers without corresponding growth in loans. This required the placement of extra liquidity in non-lending assets.
- The US banks kept the lowest percentage of cash balances to their assets at 7% compared to their global peers, despite some uptick in 2020/21.
- Instead, the US banks maintained high securities holdings as a percentage of their total assets since 2018. As of the latest, Total securities exceeded 22% of Total assets for U.S banks.
- In comparison, the Eurozone banks maintained stable securities holdings at 16%, similar to the UK banks which kept the indicator just below 14% since 2018.
- In summary, the higher interest rate environment is likely to affect the valuation of securities in all three regions. However, we expect that the **negative valuations and unrealised losses to be the highest in US banks**. This is mainly due to the higher balances of HTM and AFS securities compared to the UK and Eurozone banks.
- However, the US banks have a higher profitability cushion to absorb losses on their assets compared to their Eurozone and UK peers. This is indicated by their superior Return on Average Assets (ROAAs) at above 1.2% as at the end of 2022.

This report has been created using the data of Moody's Analytics BankFocus. If you would like more information on how to replicate the research, or would like a free trial, email [bvd@bvdinfo.com](mailto:bvd@bvdinfo.com) or visit [bvdinfo.com](https://bvdinfo.com)

## Customer deposit growth exceeded loan growth for US banks

We compared growth rates in customer deposits and customer loans for the three major peer groups – US, Eurozone and UK banks for the last five years.

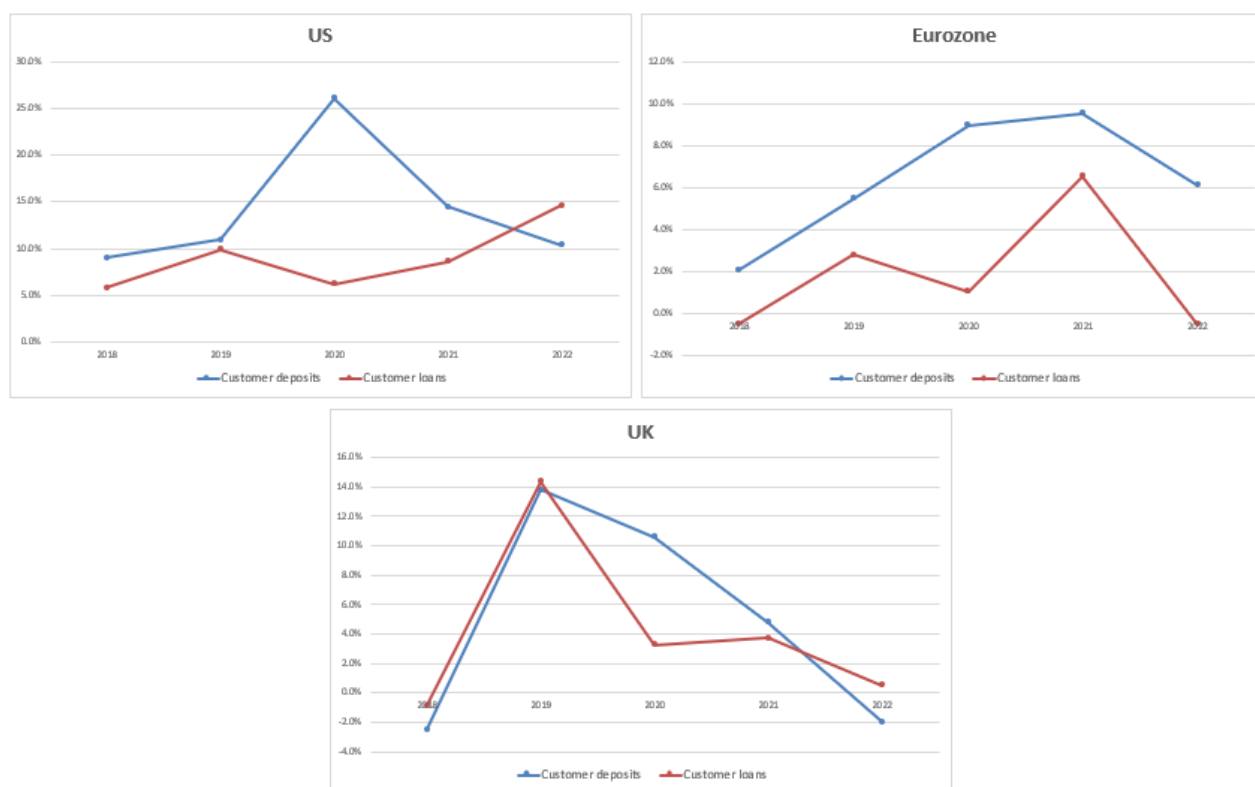
The annual growth rate in deposits was the highest in the US exceeding 25% in 2020, however this has recently subsided. Nevertheless, even the latest deposit growth rate at 10% for US banks was higher than that for their Eurozone and UK peers in 2022. For the UK banks, the deposit growth rate was the lowest with balances contracting by 2% in 2022.

Compared with the high deposit growth rates in the US, customer loans grew more modestly - below 10% during 2018 and 2021. However, loan growth picked up at 15% while deposit growth started to subside for the US banks in 2022.

In contrast, growth rates in deposits and loans were more aligned for the Eurozone and UK banks during the same period.

**In summary, US deposit growth rate was higher than its peers without corresponding growth in loans, requiring the placement of extra liquidity in other type of assets.**

**Exhibit 1: Customer deposit and Loan growth rates, 2018 – 2022**

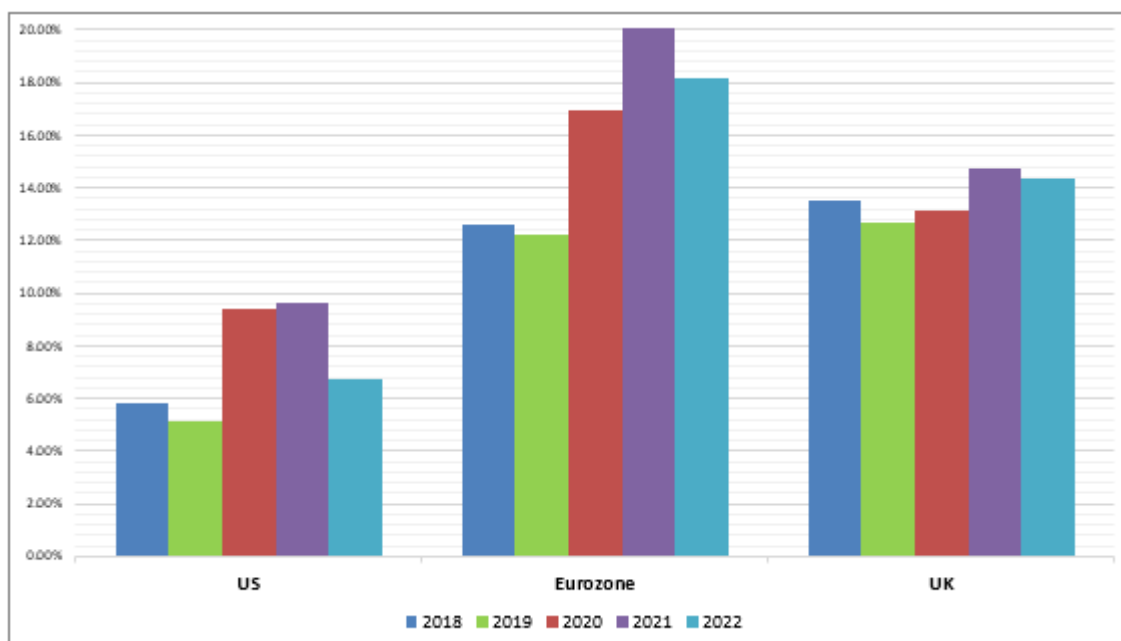


## Cash balances are higher in the UK and Eurozone banks

The Eurozone banks increased their cash balances<sup>1</sup> during the pandemic years with the latest ratio above 18% of Total assets. The UK banks broadly maintained stable cash balances over the past five years with the latest ratio above 14%. In comparison, their US peers on average had the *lowest* rate of cash holdings representing 7% of Total assets as at the end of 2022.

**In summary, despite some uptick in 2020/21 the US banks kept the lowest percentage of cash balances to their assets compared to their global peers.**

**Exhibit 2: Cash and cash equivalents as a percentage of Total Assets, 2018 – 2022**



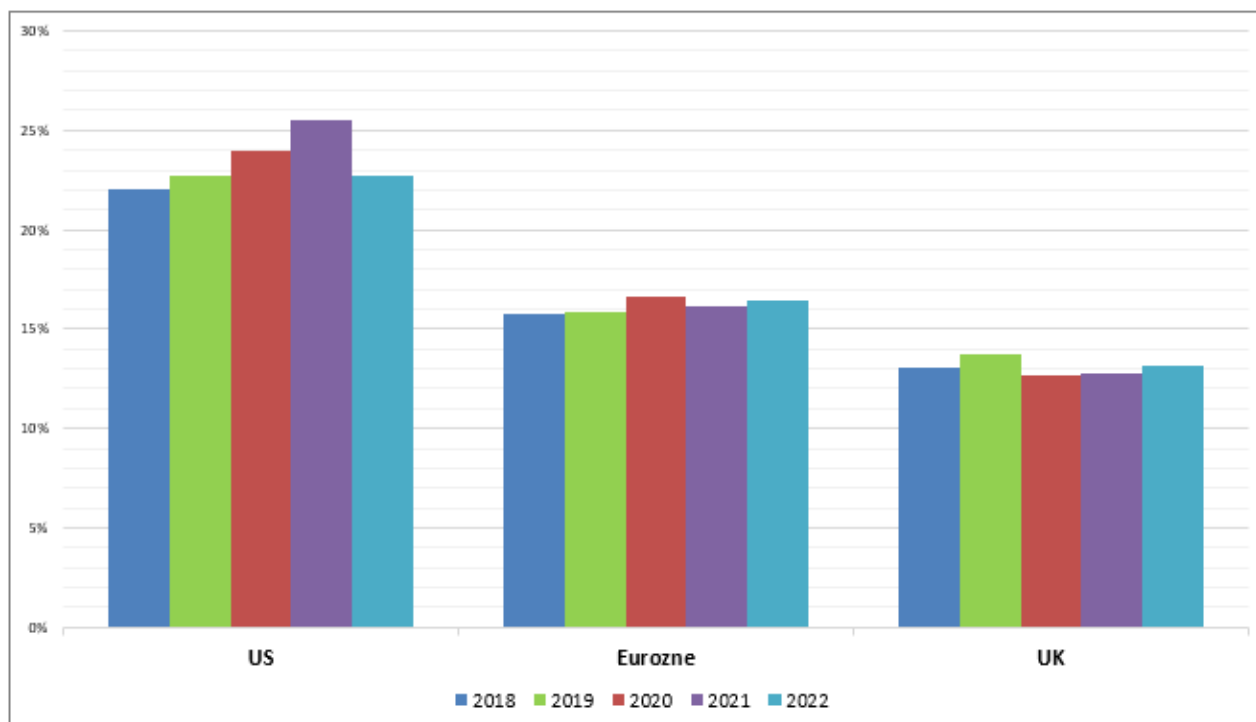
## US banks hold a larger proportion of securities in their balance sheets

The US banks maintained high securities holdings as percentage of their Total assets since 2018. As of the latest Total securities (including HTM and AFS) exceeded 22% of Total assets for the US banks.

In comparison, the Eurozone banks maintained their securities holdings largely stable at 16%, similar to the UK banks which kept the indicator just below 14% since 2018.

**In summary, the growth in deposits during the pandemic resulted in higher securities holdings by the US banks, despite some trend reversal in 2022.**

<sup>1</sup> Cash holdings include deposits with other financial institutions.

**Exhibit 3: Total securities as a percentage of Total Assets, 2018 – 2022**

## Holdings of HTM securities are increasing

In terms of breakdown in Total securities, the US banks held a higher proportion of AFS securities<sup>2</sup> compared to HTM securities<sup>3</sup> during the last five years. However, the differential between these two classes of securities narrowed with HTM securities increasing to 9% of Total assets as at end-2022 from 4.5% in 2019.

The Eurozone banks also increased their HTM holdings to 6% from 4% of Total assets, slightly above their AFS holdings at 5.6% as at the end of 2022<sup>4</sup>.

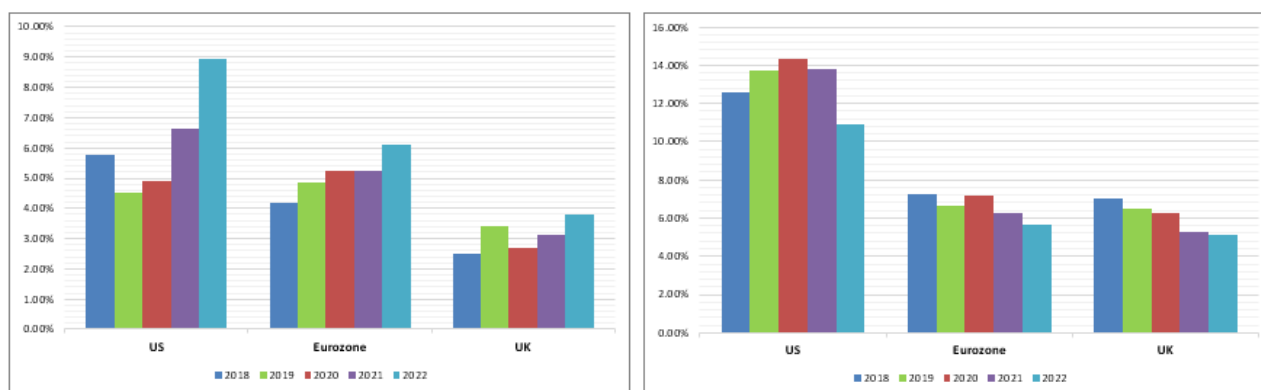
The UK banks on average followed similar dynamics with HTM securities holdings increasing to just below 4% of Total assets and AFS securities declining to 5% as at the end of 2022.

***Overall, the higher interest rate environment is likely to affect valuation of securities in all three regions. However, we expect that the negative valuations and unrealised losses to be the highest at the US banks due to the higher balances of HTM and AFS securities compared to the UK and Eurozone peers.***

<sup>2</sup> AFS securities are valued through Other comprehensive income (OCI) and valuations are provided in capital breakdown in financial statements

<sup>3</sup> The valuation of HTM securities are provided in the notes as part of their fair-value hierarchy and do not affect capital position of banks in their financial statements

<sup>4</sup> Note that the Eurozone and UK banks started to report total securities breakdown as per IFRS 9 accounting standards which corresponds to Fair value through other comprehensive income (FVOCI) and Amortized Cost.

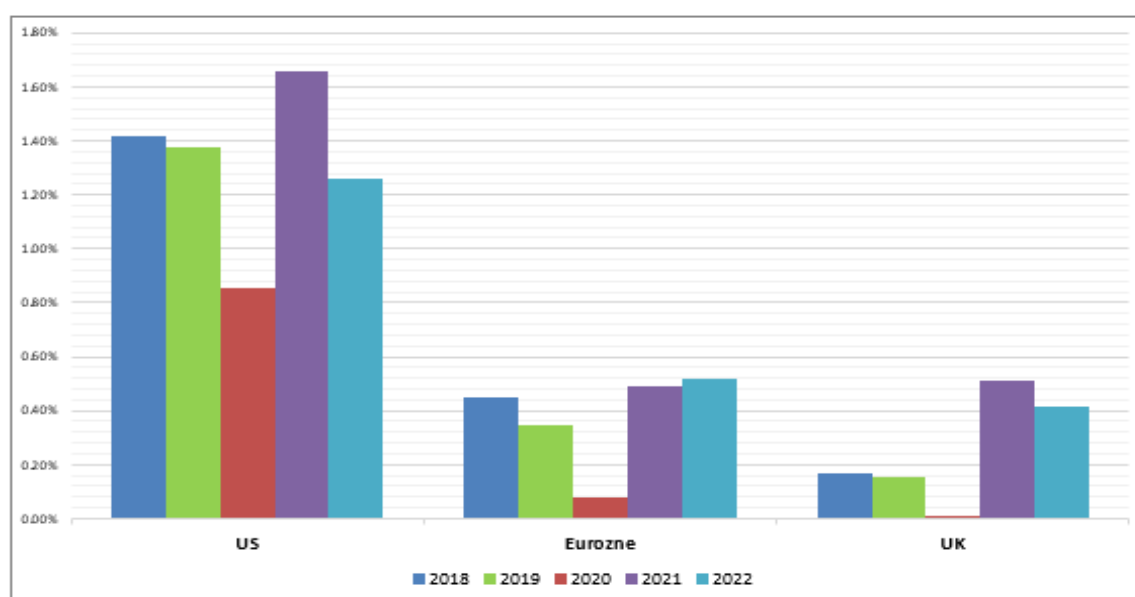
**Exhibit 4: HTM securities to Total assets (Left) and AFS securities to Total assets (Right), 2018 – 2022**

The difference between the representation of the AFS and HTM securities is that the AFS mark-to-market valuations (*unrealised gains or losses*) are reported as part of Other comprehensive income (OCI) and are visible in the bank's capital structure. For HTM securities these valuations (*unrealised gains or losses*) are provided as part of their fair-value hierarchy and requires more detailed analysis of notes in the bank's financial statements. **Moody's Analytics BankFocus provides tools to assess these unrealized gains or losses as reported by banks.**

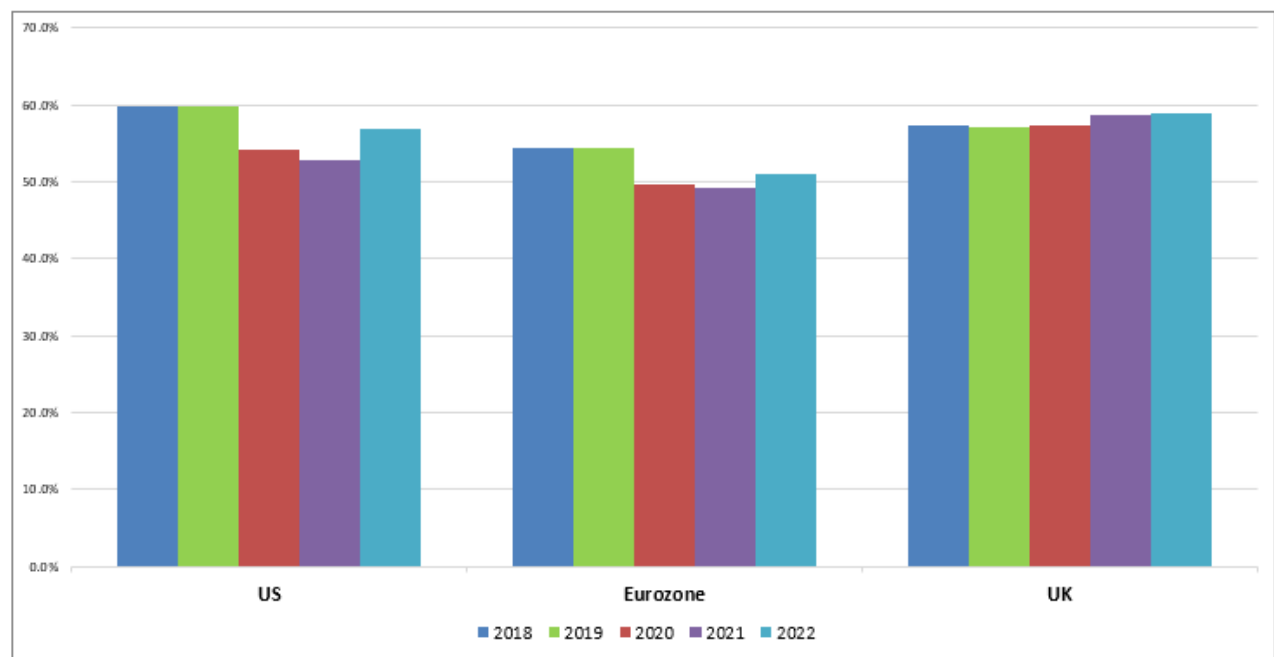
## Eurozone and UK banks have inherently low profitability

The US banks have more of a profitability cushion to absorb the impact from AFS and HTM securities compared to the Eurozone and UK banks.

The average ROAA for the latter ranged from 0.4% to 0.5% as at end-2022. This compares unfavourably to their US peers who kept the same profitability indicator above 1.2% for most of the past five years, except a dip in 2020 due to the COVID-19 pandemic related provisions.

**Exhibit 5: ROAA, 2018 – 2022**

Appendix 1: Loans to customer as a percentage of Total Assets, 2018 – 2022



**Research methodology and scope**

Using BankFocus search steps we analysed the following financial factors: Customer deposit and Customer loans, Asset structure and holdings of securities for the selected peers for the period of FY2018 to FY2022.

**Principal Ratio definition**

For more detailed definitions refer to Bank Focus **Global detailed format – data and ratio definitions in the Help section of Popular guides, Financial data.**

**We analysed leading commercial banks in the US (30 banks), Eurozone (30 banks) and UK (10 banks).**

Get in touch if you have any analytical questions

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