

CHART OF THE WEEK

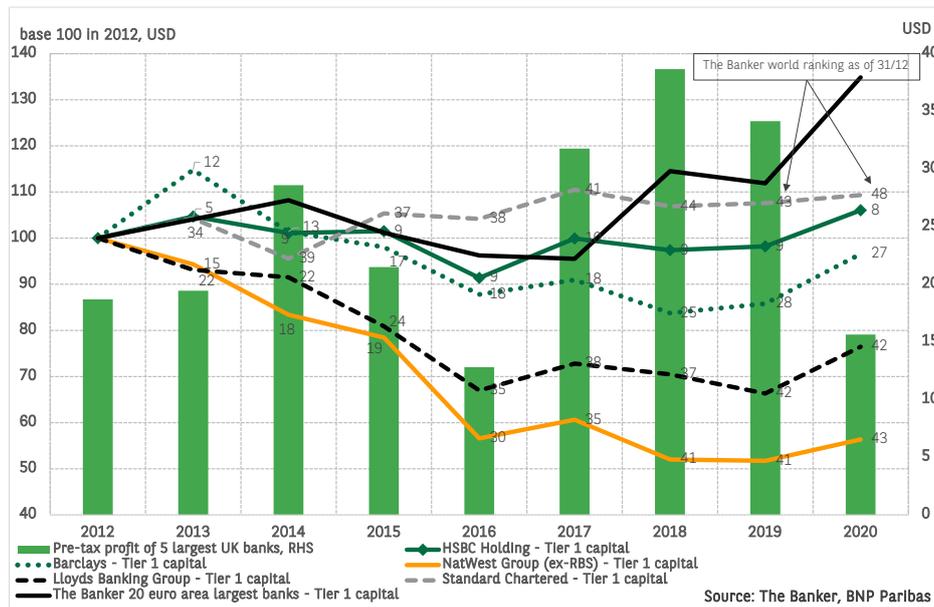


21 July 2021

UK BANKS HAVE LOST GROUND ON *THE BANKER'S* RANKING SINCE THE ANNOUNCEMENT OF BREXIT

Thomas Humblot

The largest UK banks lose ground in *The Banker's* rankings



The Banker's rankings of the UK's five largest banking groups by Tier 1 capital – HSBC, Barclays, NatWest (formerly RBS), Lloyds and Standard Chartered – have generally declined since 2013. This trend, which was initially in step with all of the largest European banks, mainly due to differences in growth rates between geographic regions, has been even sharper in the UK since the vote for Brexit in 2016. HSBC almost maintained its ranking, thanks to its geographic diversification.

The decline in the rankings of the UK banks can be attributed to the absolute decline in Tier 1 capital (-12.6% between 2013 and 2020), but also to the increase in the Tier 1 capital of the other largest euro area banks (+29.6%). Such change in the outstanding amounts of capital is, however, to be qualified by a negative exchange rate effect due to their conversion into dollars. Indeed, between 2015 -just before Brexit-, and 2020, the pound sterling depreciated by 8% against the dollar, while it depreciated by 18% against the euro.

Uncertainty over Brexit, the persistence of historically low interest rates and the economic impact of the Covid-19 pandemic have had a heavy toll on the aggregated net income of UK banks (-53.2% in 2020). Aggregated net income was slashed by a negative scissor effect in 2020 due to a 7.3% decline in operating income and a 70.1% increase in the cost of risk. The improvement observed in the results of the largest UK banks in Q1 2021 is mainly due to the reversals of provisions and must still be confirmed by Q2 results, which are to be released by the end of July.

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