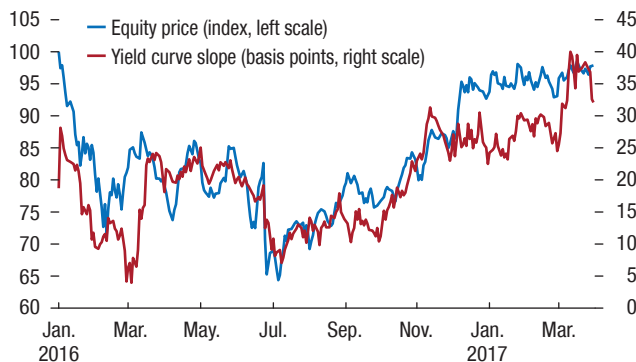


**Figure 1.22. Banking Sector Market Valuations and Return Performance**

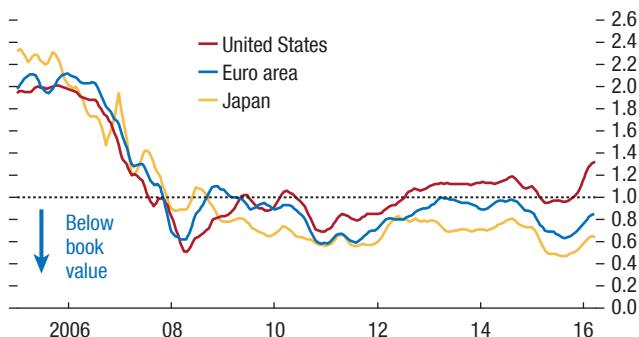
Bank equity prices have increased ...

**1. European Bank Equity Prices and the Slope of the Yield Curve**



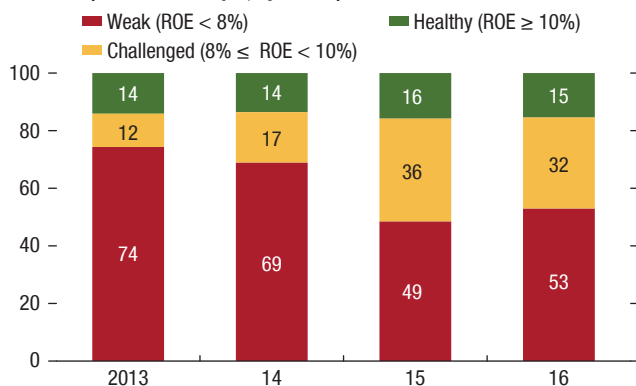
... but European equity valuations remain low.

**2. Bank Price-to-Book Ratios (Multiple)**



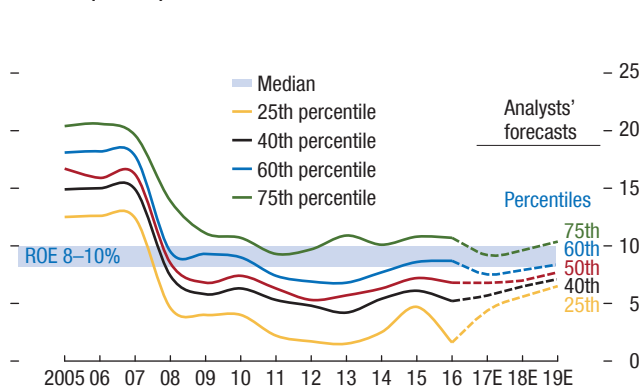
A significant proportion of banks have weak profits ...

**3. European Banks, by Return on Equity Thresholds over Time (Percent of sample, by assets)**



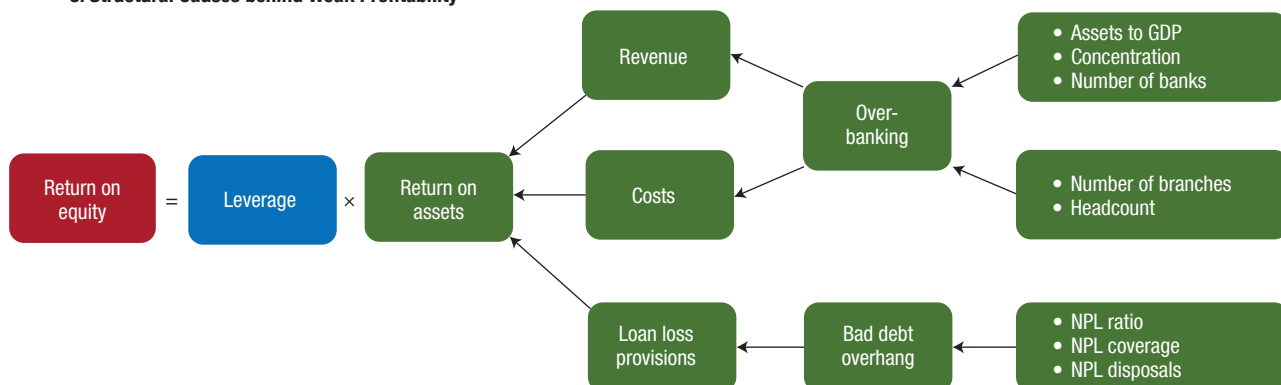
... and analysts do not expect this to change quickly ...

**4. Selected European Bank Return on Equity (Percent)**



... in the face of significant structural challenges.

**5. Structural Causes behind Weak Profitability**



Sources: Bloomberg L.P.; SNL Financial; and IMF staff estimates.

Note: In panel 1, the yield curve slope shows the difference between the three-year euro swap rate and the overnight euro rate. Panel 3 is based on a sample of 172 of the largest European banks. Panel 4 is based on about 80 European banks with analysts' forecasts. E = estimate; NPL = nonperforming loan; ROE = return on equity.