



Financial reporting of European banks

How are Expected Credit Losses of European banks impacted by increasingly common unprecedented events?

Based on 2022 annual reports provided by European banks before 1 April 2023

mazars

Table of contents

03 Executive summary

04 Sample and methodology

06 Key findings

07 ECL charge impact of YE 2022 on the profit or loss and ECL allowances

12 ECL allowances: changes in coverage ratios and allocation between stages

23 Post-model adjustments/overlays

28 Forward looking information

34 Other topics

1.1 Executive summary

Most notable events in year end (YE) 2022 are:

- A global relative decrease in the weight of stage 3 exposures and loss allowances for the benefit of stage 2 instruments, compared to YE 2021, and also more broadly since 2019.
- An average Amortised Cost loan coverage ratio that decreased compared to 2021 (1.38% in YE 2022 vs 1.53% in YE 2021) and 2019 (1.57% in YE 2019), mainly due to a significant drop in coverage ratio for stage 3 instruments that is not completely offset by the relative increase of stage 1 and stage 2 coverage ratios.
- A decreasing weight of post-model adjustments/overlays in ECL allowances compared to YE 2021 (14% of the loss allowances in YE 2022 vs 16% in YE 2021).



+106%

changes in average ECL charge/
profit YE 2022 vs YE 2021
(-81% YE 2021 vs. YE 2020)

0

banks out of 26 have a net ECL Profit
in YE 2022
(9 YE 2021)



17%

average share of ECL charge in
operating profit or loss before ECL in
YE 2022
(20% YE 2021)

30%

average weight of change in the
post-model adjustments in the ECL
P&L impact in YE 2022
(48% YE 2021)

2. Sample and methodology




2. Sample and methodology

This study is based on information disclosed in the annual reports of participating banks, without taking into account any press releases, investor-oriented presentations or similar publications.

Each bank is represented by an alphanumeric code composed of two letters, for instance, FR for France, and a number. When the sample presents only one bank in a country, to keep it anonymous, the country code is 'O' for 'other countries'.

To increase comparability, we have chosen relevant indicators disclosed by a majority of the banks in the sample. Therefore, when a bank does not appear in a graph, it means they did not disclose data relevant to that graph.

Some figures presented, such as the ECL coverage ratio, have been calculated using input data from the annual reports. The detailed methodology for producing such figures is explained below.

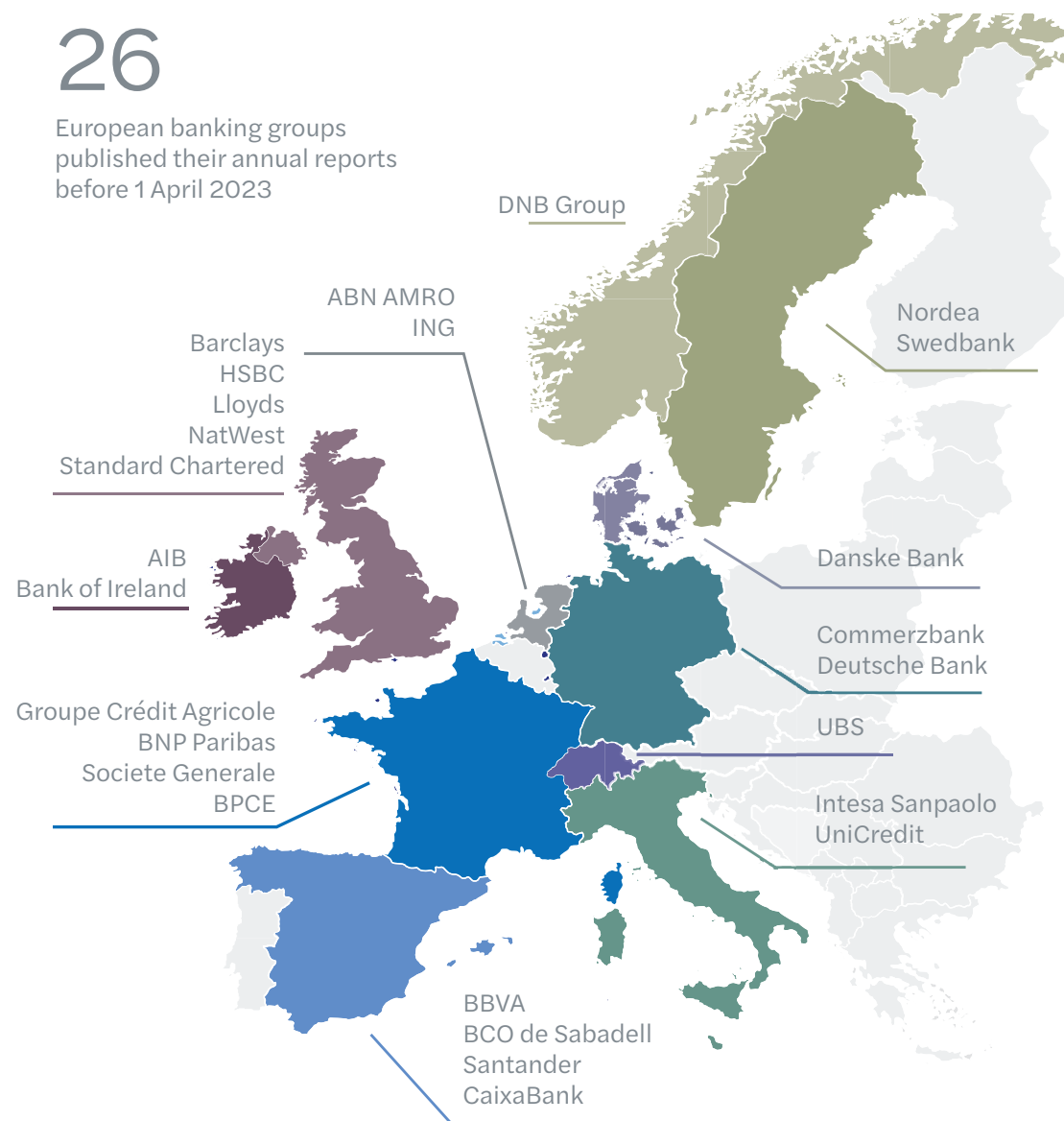
 **The graphs using figures that required specific calculations are indicated with the 'magnifying glass' icon, as seen on the left.**

It should be noted that comparisons should be treated with some care, as information provided by banks does not always follow the exact same instrumental scope. In some cases, assumptions were made to increase the comparability of the data.

The comparison of quantitative findings should be examined with caution due to the differing natures and risk profiles of bank portfolios. Usually, more granular additional information (e.g. by geographical area or by type of loan) would be required to fully understand the differences between the results of each bank.

26

European banking groups published their annual reports before 1 April 2023



3. Key findings

3.1. ECL charge impact of YE 2022 on the profit or loss and ECL allowances

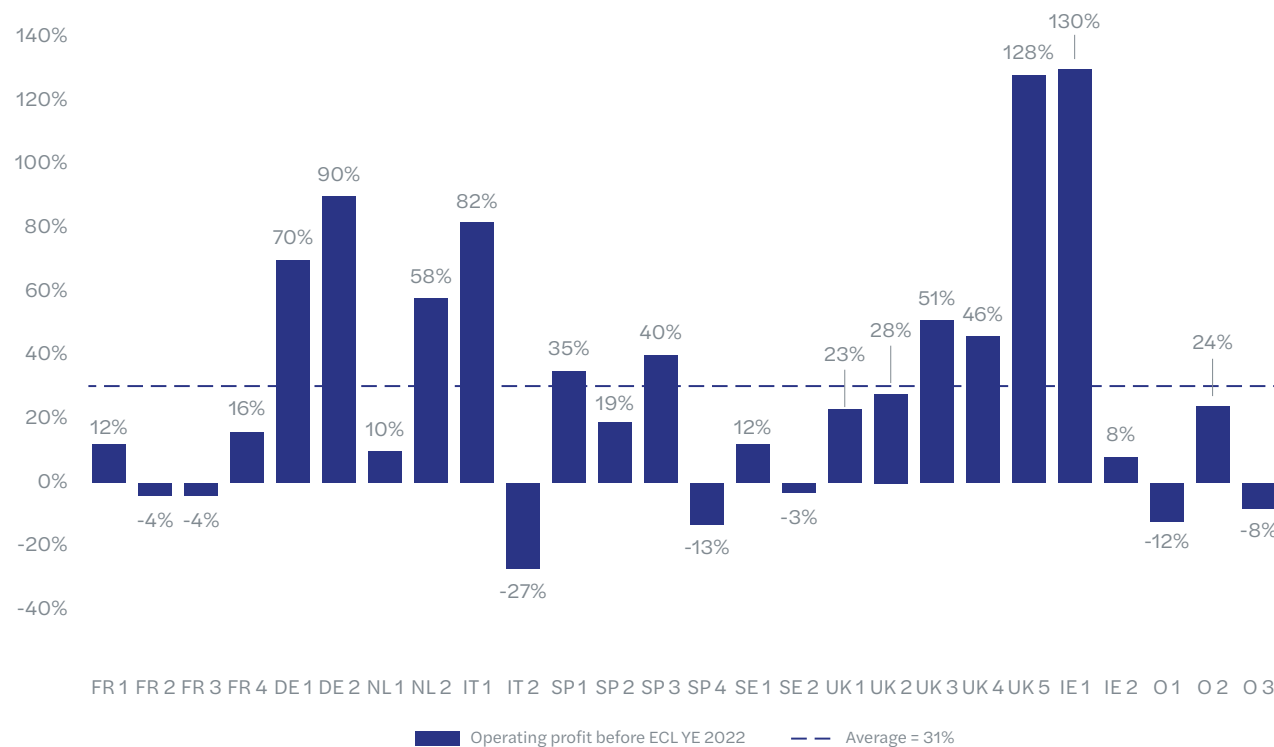


3. Key findings

3.1. ECL charge impact of YE 2022 on the profit or loss and ECL allowances


3.1.1 Change in operating profit or loss before ECL charge/release

Graph 1: Change in operating profit or loss before ECL charge, in % (var YE 2022 vs YE 2021)



Insights

- 19 banks in the sample experienced positive growth in their operating profit or loss before ECL charge.
- Seven banks experienced a decrease in their operating profit or loss before ECL charge, but operating profit or loss remained positive for all banks.

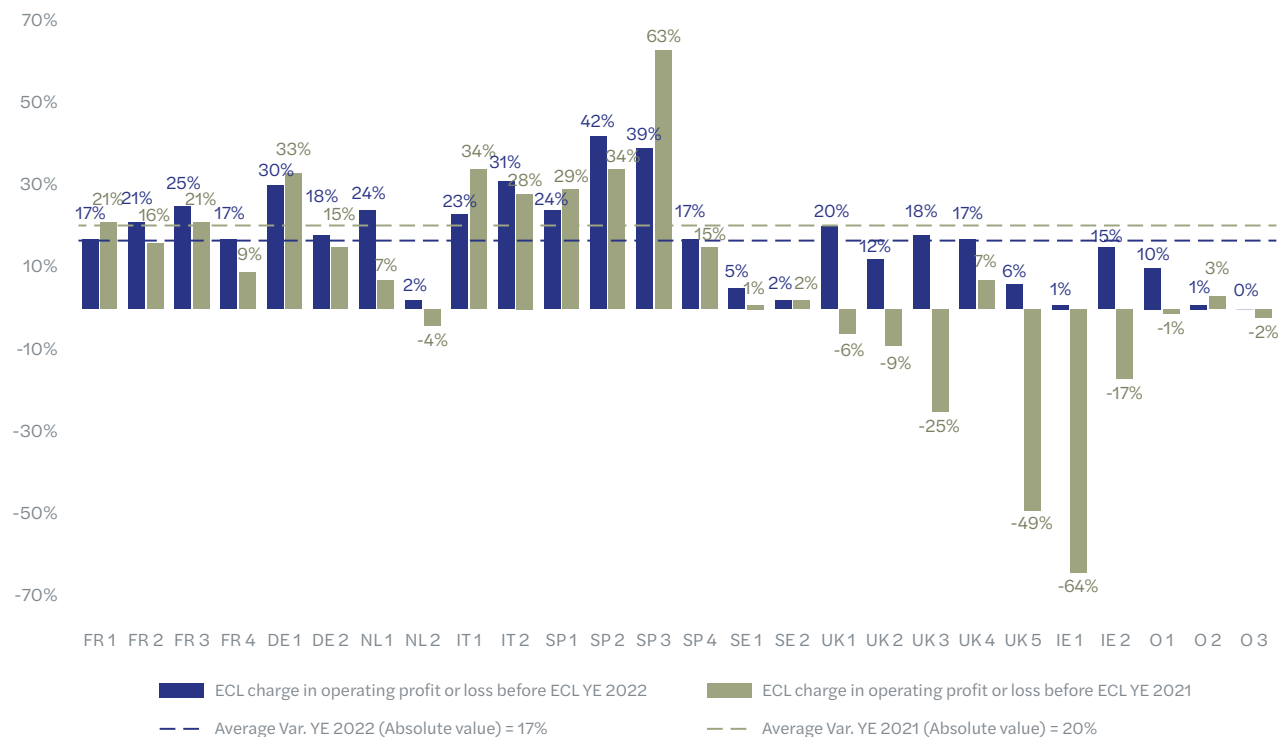
 Note: The 'operating profit before ECL charge/release' indicator has been computed with data available in the income statements of the banks in our sample. It includes salaries and other operating expenses, amortisation, depreciation or impairment charges for tangible and intangible non-financial assets (if any). It excludes 'non-operating' income or expenses such as share in the income of associates and joint ventures or profit from disposal of non-financial assets and the ECL charge for the period. Given the diversity in the presentation of different lines in the income statement by European banks, this indicator should be seen as a broad measure of revenue net of most operating expenses, rather than a universal measure of net profitability before impairment (we cannot guarantee that the scope of this indicator is exactly the same in all the banks in the sample).

3. Key findings

3.1. ECL charge impact of YE 2022 on the profit or loss and ECL allowances

3.1.2 Share of ECL charge in operating profit or loss before ECL

Graph 2: ECL charge as a percentage of operating P&L before ECL



Insights

- The average ratio of ECL charge divided by the operating profit or loss before the ECL charge decreased to 17% in YE 2022 (vs 20% in YE 2021).
- In YE 2022, the median amounted to 17% (15% in YE 2021) with a range from 0% to 42%.
- In YE 2022, all banks of the sample had a net ECL charge in operating profit or loss before ECL. Negative figures for nine banks in YE 2021 meant a net ECL release in operating profit or loss before ECL.

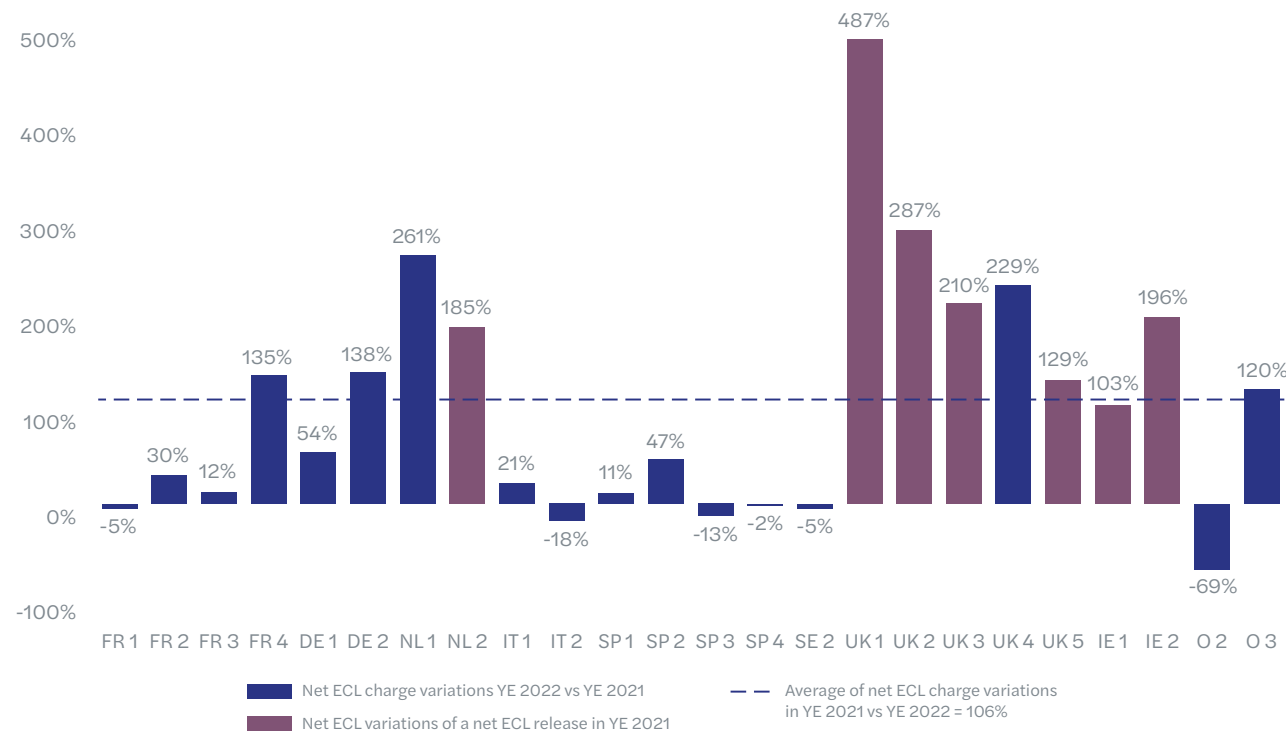
🔍 Note: See section 3.1.1 for an explanation of how we calculated operating profit or loss before the ECL charge, the denominator of the ratio presented here.

3. Key findings

3.1. ECL charge impact of YE 2022 on the profit or loss and ECL allowances

3.1.3 Changes in ECL charge/release

Graph 3: Changes in ECL charge /release - Var. YE 2022 vs YE 2021



Insights

- Positive percentage numbers reflect an increase in the net ECL charge in YE 2022 compared to YE 2021.
- The purple bars mean the entity experienced an ECL release in YE 2021:
 - For example regarding IE 1 the variation of 103% means that the ECL charge in YE 2022 is close to 0 when it showed a net ECL release in YE 2021.
- In YE 2022, most banks in the sample present an increase in their ECL charge compared to YE 2021: the average increase is 106%.
- A high change in net ECL charge in YE 2022 can be explained by a low level of ECL charge in YE 2021. SE 1 and O 1 values are not represented in this graph because of irrelevant values (respectively +770% and +1440%).
- Geographical trends can be identified: UK, Irish and Dutch banks experienced the highest variations of ECL charge whereas Italian and Spanish banks showed a much lower increase in their ECL charge.

Note: the data above should be interpreted with some caution. We have used data available in the profit or loss statements as banks often isolate the ECL/fin. instruments' impairment charge within a single line of P&L. However, at least one bank in our sample has included part of the ECL charge relating to off-balance sheet commitments within another line of P&L that we include in the charge for YE 2021 and YE 2020. At least two other banks have included in their ECL charge factors that do not stem directly from the IFRS 9 ECL models, such as a fair value credit risk adjustment in loans at fair value.

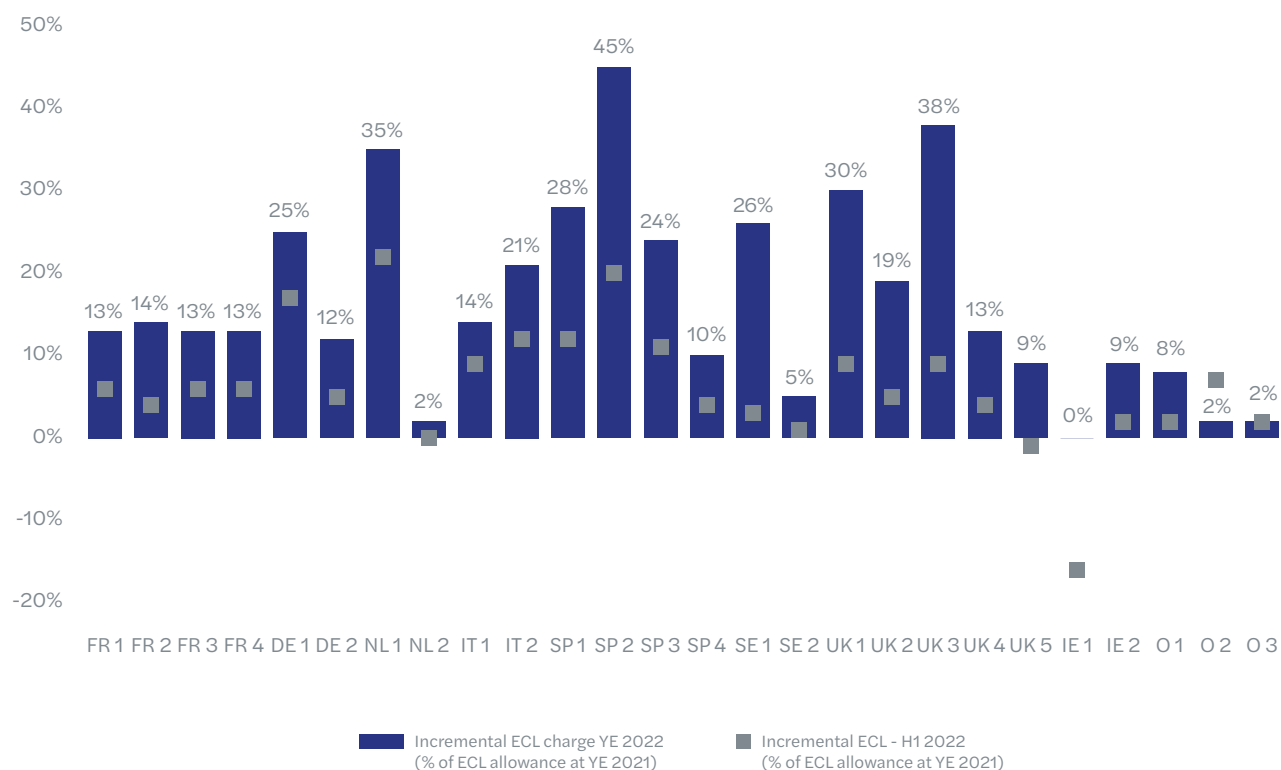
3. Key findings

3.1. ECL charge impact of YE 2022 on the profit or loss and ECL allowances

3.1.4 Incremental ECL (% of ECL allowances)


Graph 4: Incremental ECL

(charge at YE 2022 expressed as a % of ECL allowance at YE 2021
charge at H1 2022 expressed as a % of ECL allowance at YE 2021)



Insights

- In YE 2022, there was a wide range of incremental ECL allowances (from +45% to 0%), to be compared to a range from +30% to -22% in YE 2021).
- Overall, we see more balance in the pace of the ECL charge throughout the year 2022 compared to 2021, although there are still some notable differences:
 - UK and Irish banks, SE 1, SE 2 and O1 mainly endowed their ECL in H2 2022. UK 5 and IE 1 have moved from a net ECL release at H1 2022 to a net ECL charge at H2 2022.
 - In contrast, DE 1, NL 1 and IT 1 mainly endowed their ECL in H1 2022, to a lesser extent than the previous banks.
 - French and Spanish banks are overall balanced in their ECL charge endowment between H1 and H2 2022.

 Note: This graph presents the IFRS 9 ECL losses and ECL allowances concerning assets at amortised cost, assets at FV-OCI and off-balance sheet commitments and guarantees. A negative incremental ECL indicates a net ECL profit in YE 2021.

3. Key findings

3.2. ECL allowances: changes in coverage ratios and allocation between stages

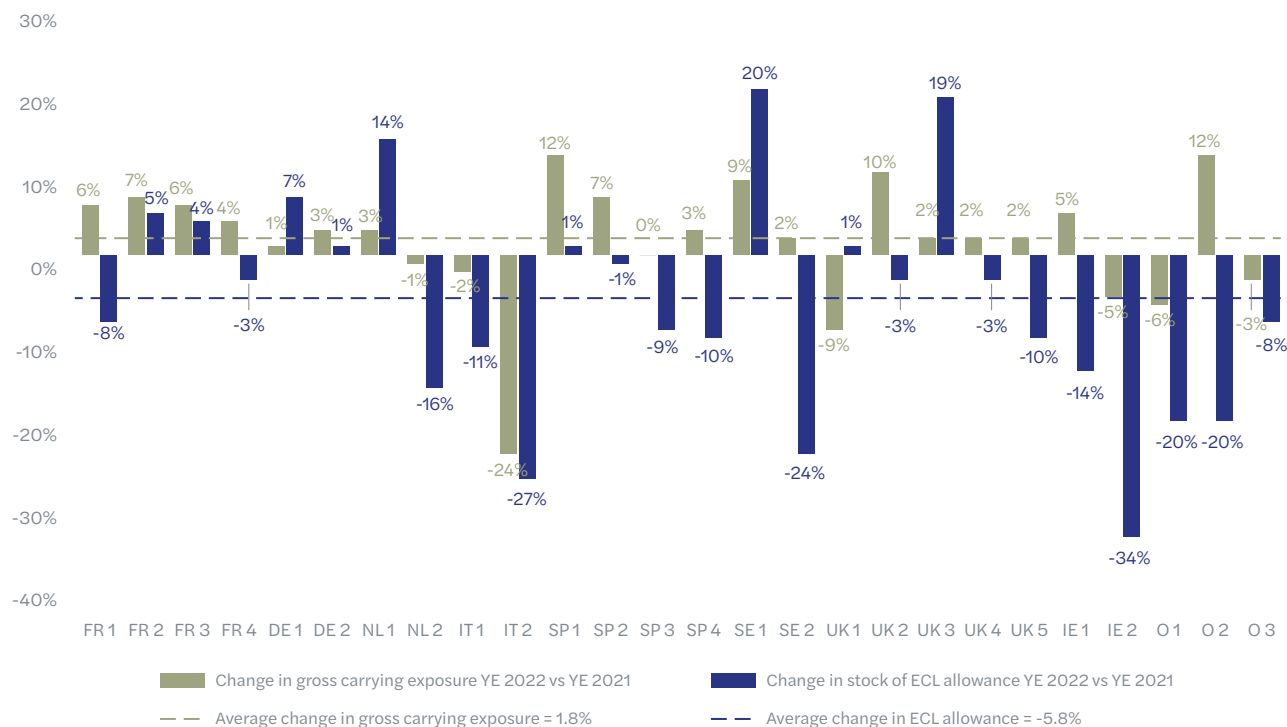


3. Key findings

3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.1 AC loans: changes in gross credit exposures (GCE) and in ECL allowances

Graph 5: Changes in gross credit exposure of AC loans and in ECL allowance in YE 2022 compared to YE 2021



Insights

- Globally gross credit exposures slightly increase on average (+2%) but within a large range (from -24% to +12%). ECL allowances share the same trend as the slight average decrease of -6% reflect diverse situations (from -34% to +20%).
- 17 out of 26 banks experienced a decrease in their ECL allowances:
 - For most of them, this decrease was achieved in proportions that were largely in excess of the evolution of GCE.
 - This may raise questions as no bank showed a net ECL release in YE 2022 (see previous slide). This situation might be explained by derecognition of stage 3 exposures that concentrate the largest amount of ECL.

 Note: the definition of the (gross) exposure is not always provided and may differ from the definition of a 'gross carrying amount' compliant with IFRS 9, which is intended to reflect the approximate notional amount before impairment (e.g. fair value rather than the gross carrying amount may be included for assets measured at FV-OCI with recycling to P&L). The figures in Graph 5 offer an approximation of the changes in the volumes of AC loans subject to the IFRS 9 impairment model.

3. Key findings

3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.2 ECL Coverage ratios of AC loans (YE 2022 vs. YE 2021)

Graph 6.1: AC loans coverage ratio YE 2022 vs. YE 2021



Insights

- The average ECL coverage ratio of AC loans is 1.4% in YE 2022 (1.5% in YE 2021).
- Most banks (21) show a decrease in their coverage ratio.
- We still observe significant diversity in the levels of global ECL coverage ratio, although the gap has been continuously narrowing since YE 2020 (between 0.2% and 2.9% in YE 2022, compared to 0.3% to 4.2% in YE 2020).
- As for YE 2021, there is fairly good consistency between each country: French and Italian banks are either close to the average or slightly above, while Spanish and Irish banks are above the average, and Dutch, Swedish and German are below.

Note: Loans at amortised cost encompass the loans granted to banks and public/retail customers that are accounted for at amortised cost (AC). We computed the ECL coverage ratio of AC loans for each bank by dividing the ECL allowance of AC loans by the gross credit exposure of AC loans only. We have tried to be as consistent as possible given the information disclosed.

Several banks do not disclose enough information to enable the calculation of this ratio.

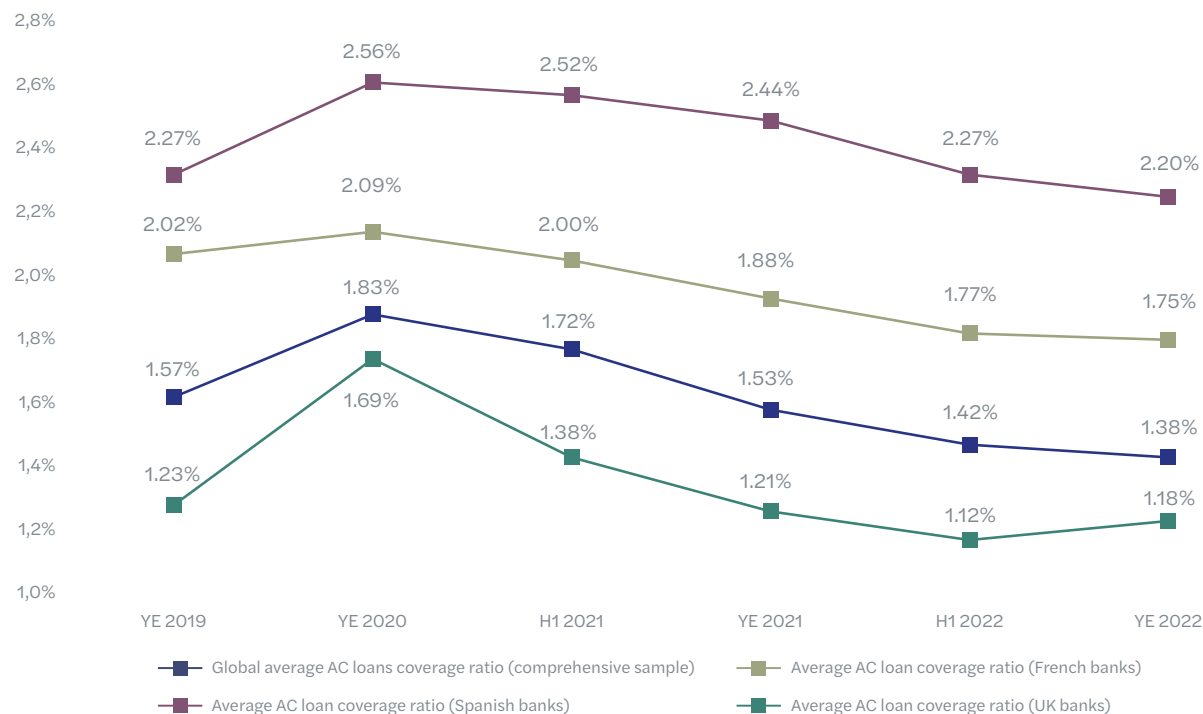
The comparison of quantitative findings should be examined with caution due to the differing natures and risk profiles of bank portfolios. Usually, more granular additional information (e.g. by geographical area or by type of loan) would be required to fully understand the differences between the results of each bank.

3. Key findings

3.2. ECL allowances: changes in coverage ratios and allocation between stages


3.2.3 ECL Coverage ratios of AC loans changes since YE 2019

Graph 6.2: AC loans coverage ratio changes YE 2019 - YE 2022



Insights

- We have considered the changes in ECL coverage ratios for French, Spanish and UK banks as they are the more represented in the panel (13 banks).
- All banks show a similar trend until H1 2022, with an increase in YE 2020, followed by a continuous decrease until H1 2022.
- UK banks stand out between H1 and H2 2022 as they have increased their ECL coverage ratios, whereas other banks have continued to decrease it (but at a slower pace).
- The global average ECL coverage ratio of AC loans for all banks has decreased between YE 2019 (1.57%) and YE 2022 (1.38%).

 Note: Loans at amortised cost encompass the loans granted to banks and public/retail customers that are accounted for at amortised cost (AC). We computed the ECL coverage ratio of AC loans for each bank by dividing the ECL allowance of AC loans by the gross credit exposure of AC loans only. We have tried to be as consistent as possible given the information disclosed.

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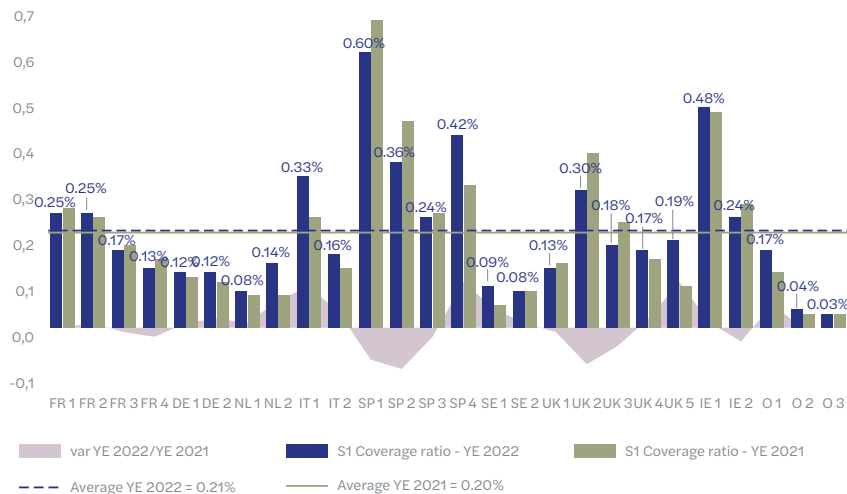
The comparison of quantitative findings should be examined with caution due to the differing natures and risk profiles of bank portfolios. Usually, more granular additional information (e.g. by geographical area or by type of loan) would be required to fully understand the differences between the results of each bank.

3. Key findings

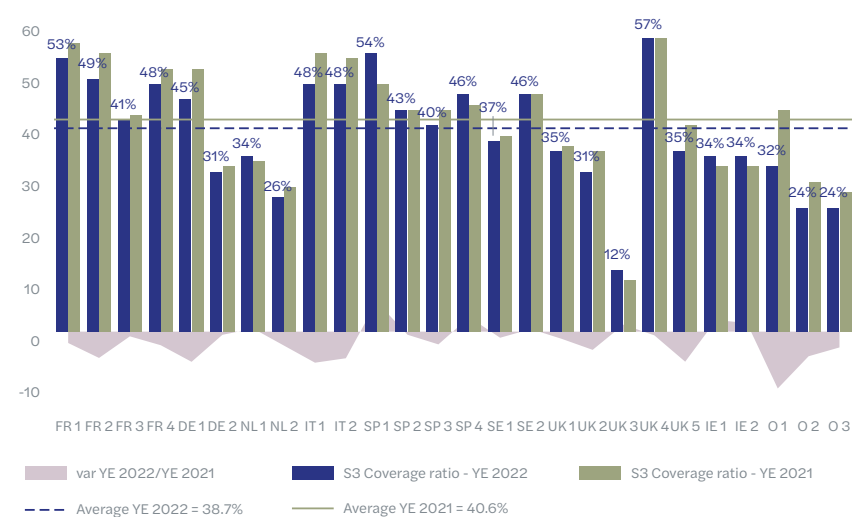
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.4 AC loans: coverage ratio broken down by stage (YE 2022 vs. YE 2021)

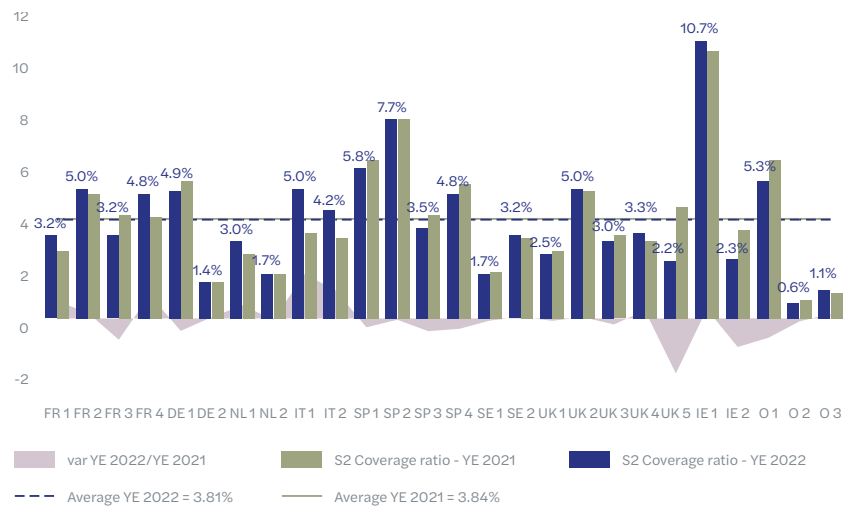
Graph 6.3: AC loans - Stage 1 coverage ratio - YE 2022 vs. YE 2021



Graph 6.5: AC loans - Stage 3 coverage ratio - YE 2022 vs. YE 2021



Graph 6.4: AC loans - Stage 2 coverage ratio - YE 2022 vs. YE 2021



Insights

- On average, the coverage ratios remained fairly stable for stage 1, slightly decreased for stage 2 and decreased more significantly for stage 3, compared to YE 2021.
- Most of the banks experienced a decrease in their stage 3 coverage ratios, whereas it is more balanced for stage 1 and stage 2.

Note: Some banks include POCI assets in their stage 3 figures. In addition, several banks provided a breakdown by stage for most of their asset classes, but not necessarily all asset classes. The comparability of stage 3 weight may be further influenced by potentially different write-off policies.

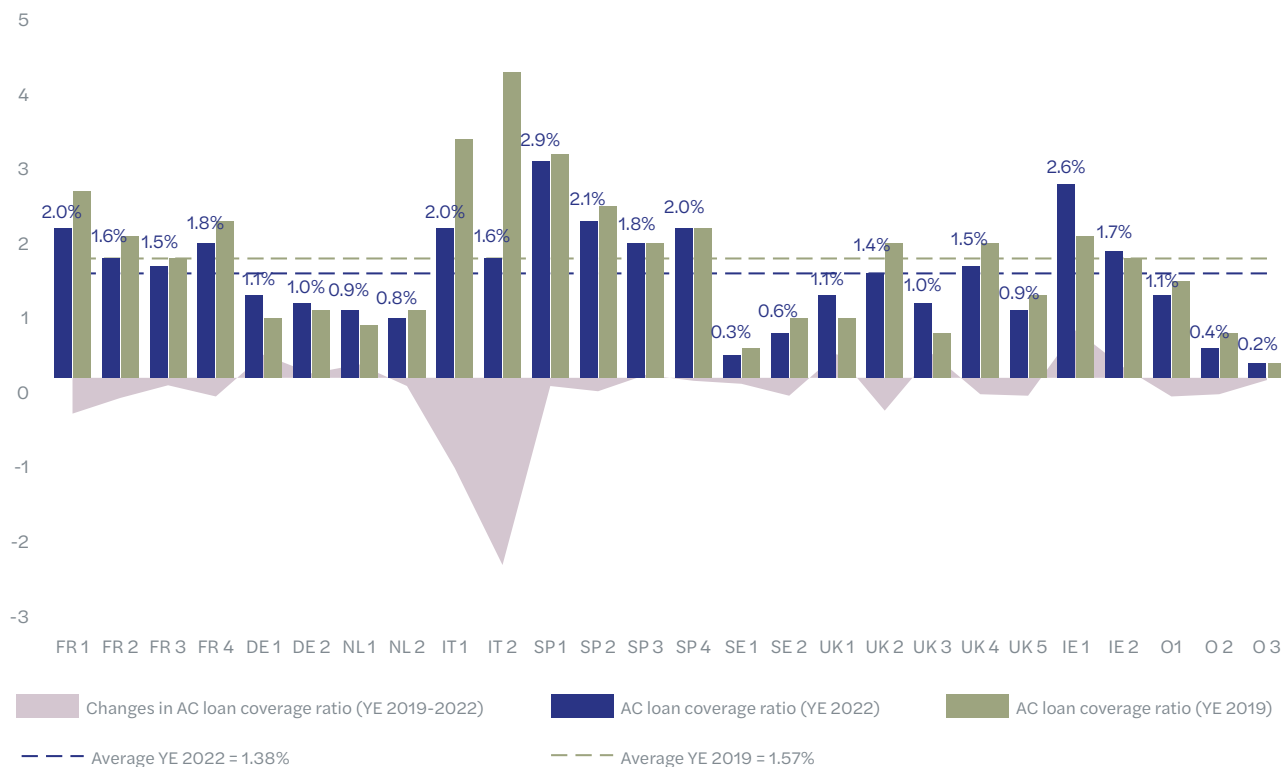
The same methodology described in Graph 6.1 has been used for computing the coverage ratio by stage. The limitations in relation to the data used to calculate these metrics are explained above.

3. Key findings

3.2. ECL allowances: changes in coverage ratios and allocation between stages


3.2.5 ECL Coverage ratios of AC loans (YE 2022 vs. YE 2019)

Graph 6.6: AC loans coverage ratio changes YE 2022 vs YE 2019



Insights

- The average ECL coverage ratio of AC loans is 1.38% in YE 2022 (1.57% in YE 2019), meaning a relative decrease of the AC loans global coverage by 19 bps.
- The changes in the global AC loans coverage ratios are rather heterogeneous, but fairly consistent between banks of the same country:
 - French banks experienced a slight decrease of their global coverage ratios but remain close to the average.
 - Most Dutch and German banks went through a slight increase of their coverage ratios but all of them remain well below the average.
 - Italian banks incurred a significant decrease of their global AC loans coverage ratios to get much closer to the average compared to YE 2019, thanks to their deleveraging NPL policies.
 - Spanish banks are in YE 2022 close to their coverage ratio of YE 2019 and remain above the average.
 - UK banks have more diverse situations but the range of coverage ratios has tightened since YE 2019 (now between 0.9% and 1.5% compared to 0.6% and 1.8% in YE 2019).

 Note: Loans at amortised cost encompass the loans granted to banks and public/retail customers that are accounted for at amortised cost (AC). We computed the ECL coverage ratio of AC loans for each bank by dividing the ECL allowance of AC loans by the gross credit exposure of AC loans only. We have tried to be as consistent as possible given the information disclosed.

Several banks do not disclose enough information to enable the calculation of this ratio.

The comparison of quantitative findings should be examined with caution due to the differing natures and risk profiles of bank portfolios.

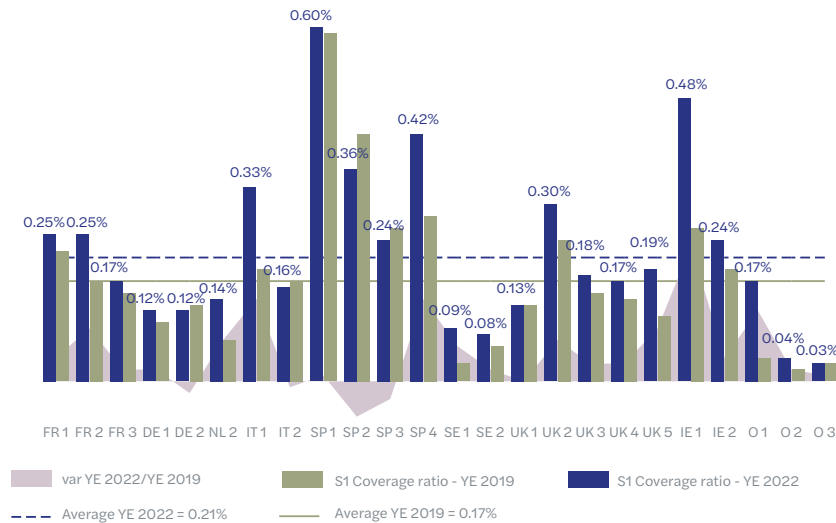
Usually, more granular additional information (e.g. by geographical area or by type of loan) would be required to fully understand the differences between the results of each bank.

3. Key findings

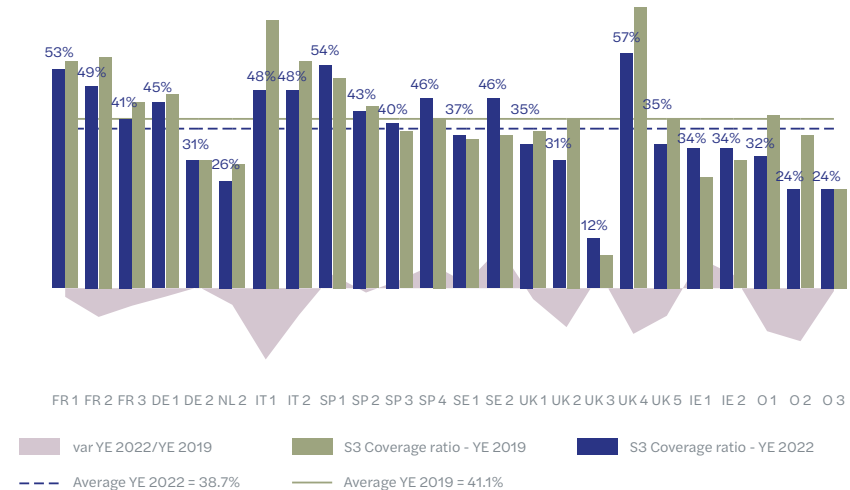
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.6 AC loans: coverage ratio broken down by stage (YE 2021 vs. YE 2019)

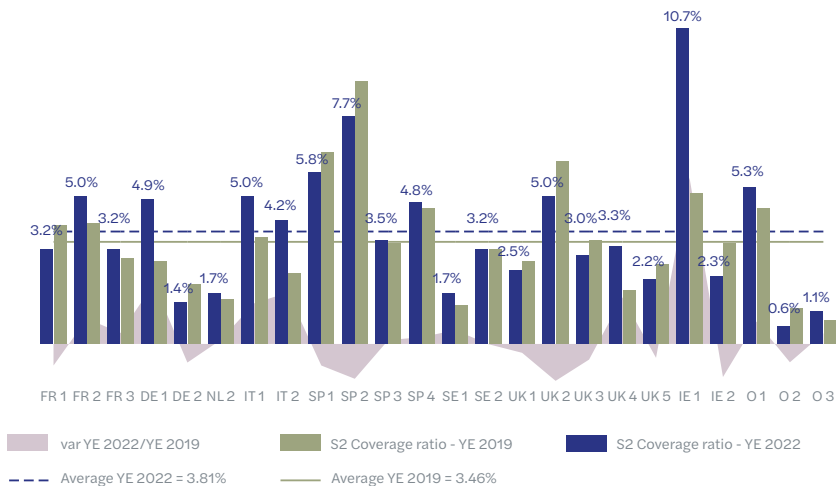
Graph 6.7: AC loans - Stage 1 coverage ratio - YE 2022 vs. YE 2019



Graph 6.9: AC loans - Stage 3 coverage ratio - YE 2022 vs. YE 2019



Graph 6.8: AC loans - Stage 2 coverage ratio - YE 2022 vs. YE 2019



Insights

- The situations are contrasting for each stage AC loan coverage ratio between YE 2019 and YE 2022:
 - Stage 1 and stage 2 AC loans coverage ratios increased by respectively 4 bps and 35 bps (respectively 24% and 10% in relative changes).
 - Stage 3 AC loans coverage ratio decreased by 240 bps (6% in relative change).



Note: Some banks include POCI assets in their stage 3 figures. In addition, several banks provided a breakdown by stage for most of their asset classes, but not necessarily all asset classes. The comparability of stage 3 weight may be further influenced by potentially different write-off policies.

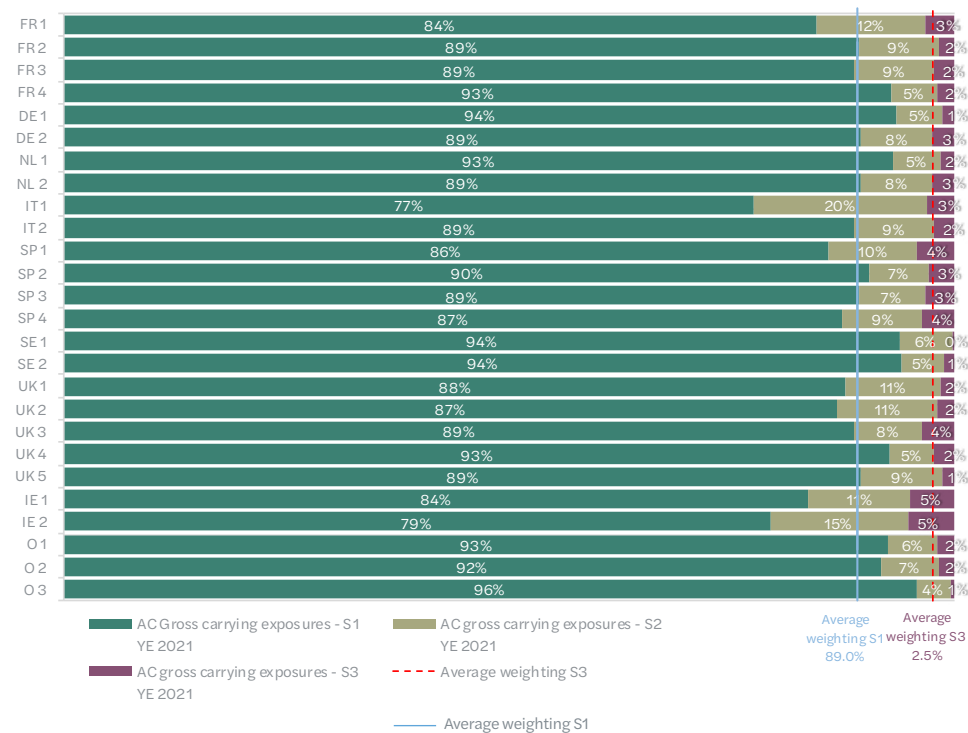
The same methodology described in Graph 6.1 has been used for computing the coverage ratio by stage. The limitations in relation to the data used to calculate these metrics are explained above.

3. Key findings

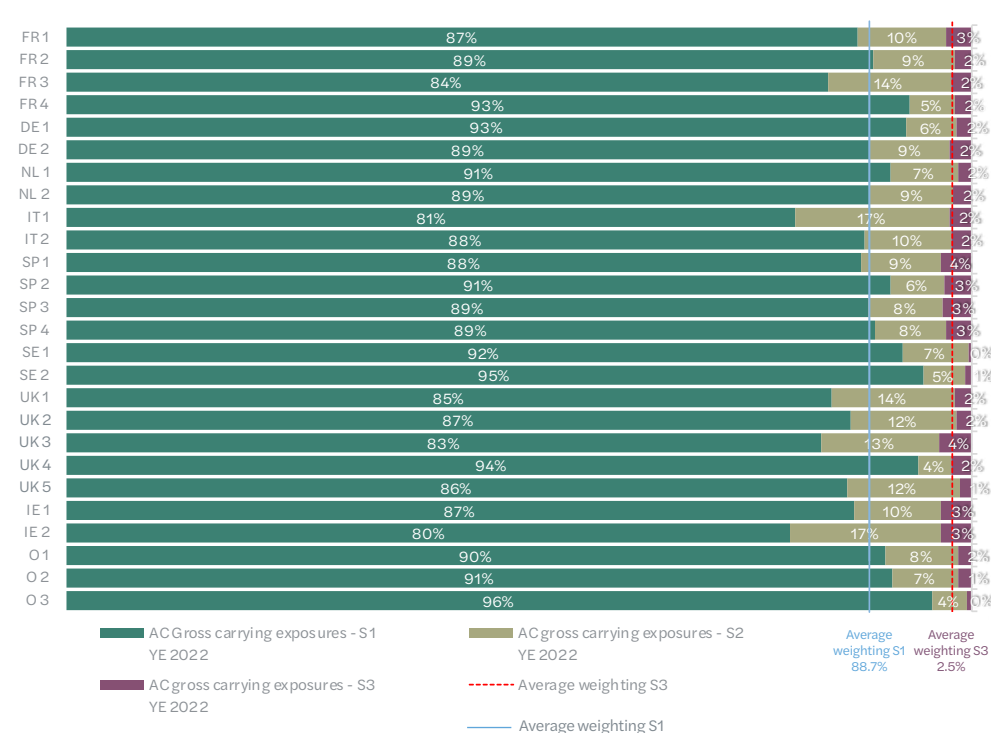
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.7 Breakdown of AC loans gross credit exposures by stage (YE 2022 vs. YE 2021)

Graph 7.1: allocation by stage of AC loans gross carrying exposures in YE 2021



Graph 7.2: allocation by stage of AC loans gross carrying exposures in YE 2022



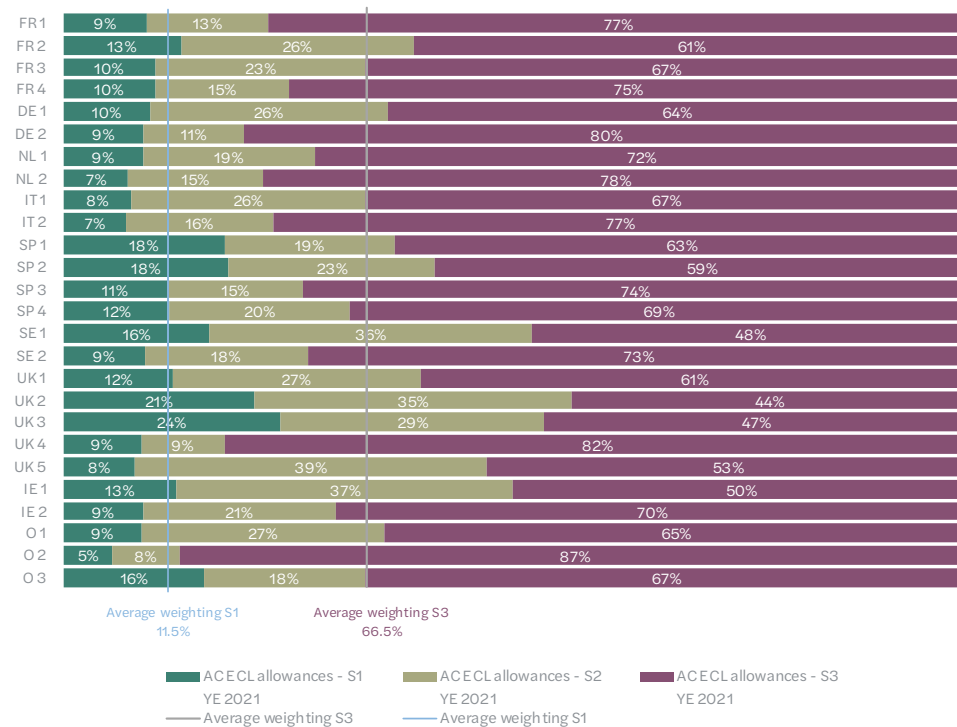
Note: Some banks include POCI assets in their stage 3 figures. In addition, several banks provided a breakdown by stage for most of their asset classes, but not necessarily all asset classes. The allocations by stage, therefore, are not directly comparable between banks. The comparability of Stage 3 weight may be further influenced by potentially different write-off policies.

3. Key findings

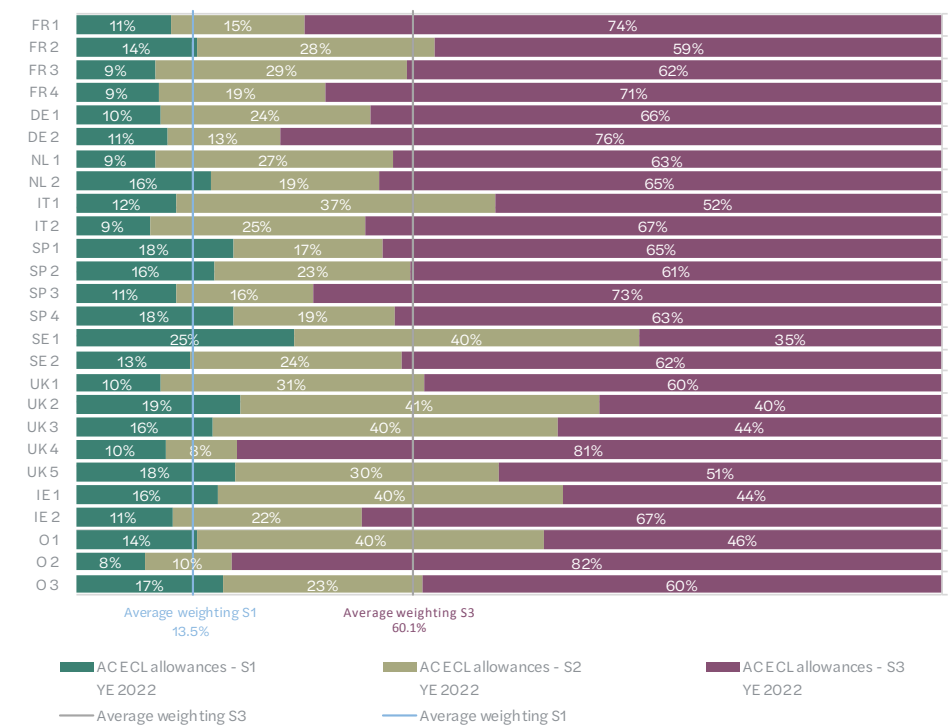
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.8 Breakdown of AC loans ECL allowances by stage (YE 2022 vs. YE 2021)

Graph 8.1: allocation by stage of AC loans - ECL allowances in YE 2021



Graph 8.2: allocation by stage of AC loans - ECL allowances in YE 2022



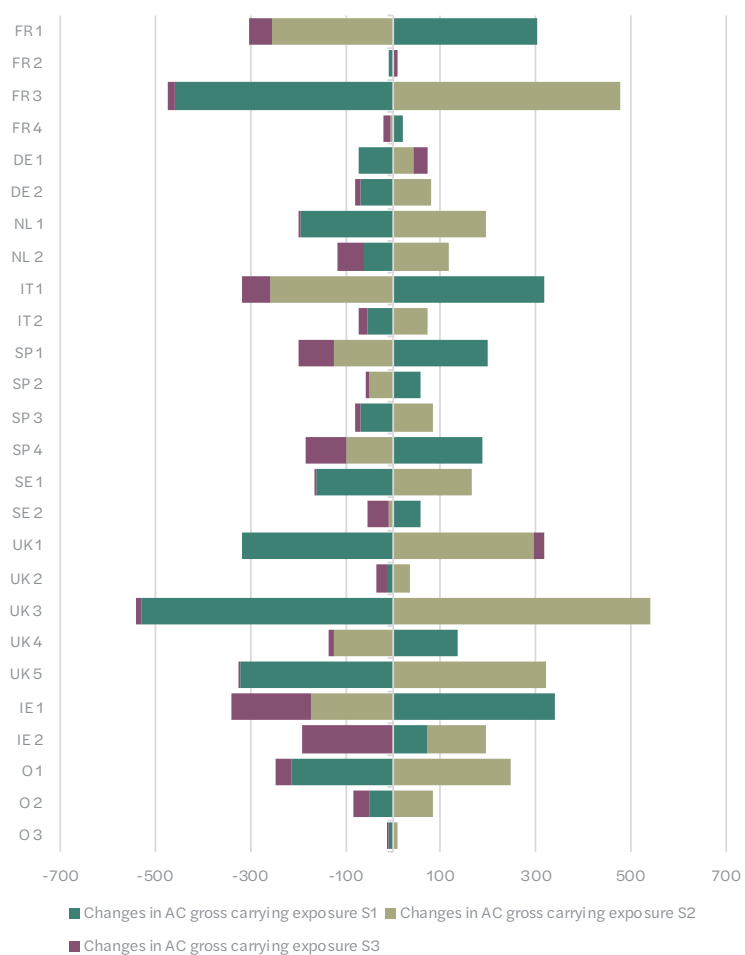
Some banks include POCI assets in their stage 3 figures. In addition, several banks provided a breakdown by stage for most of their asset classes, but not necessarily all asset classes. The allocations by stage, therefore, are not directly comparable between banks. The comparability of Stage 3 weight may be further influenced by potentially different write-off policies.

3. Key findings

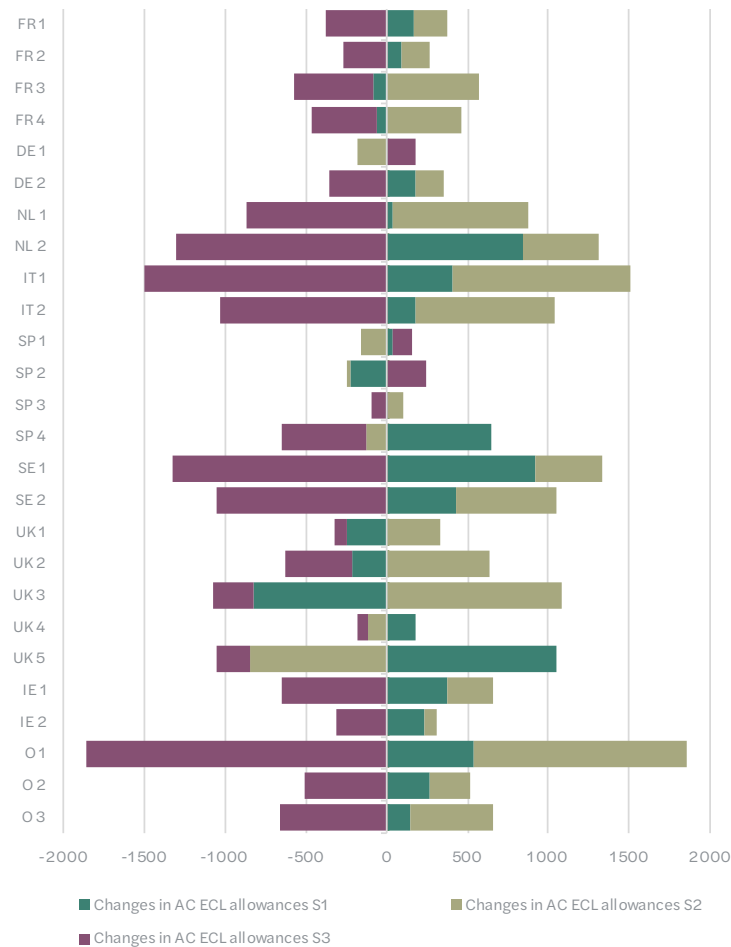
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.9 Breakdown of changes in AC loans gross credit exposure and ECL allowance by stage (YE 2022 vs. YE 2021)

Graph 9.1: Changes in AC loans - GCE by stage
YE 2022 vs YE 2021 (bps)



Graph 9.2: changes in ECL allowances by stage
YE 2022 vs YE 2021 (bps)



Insights

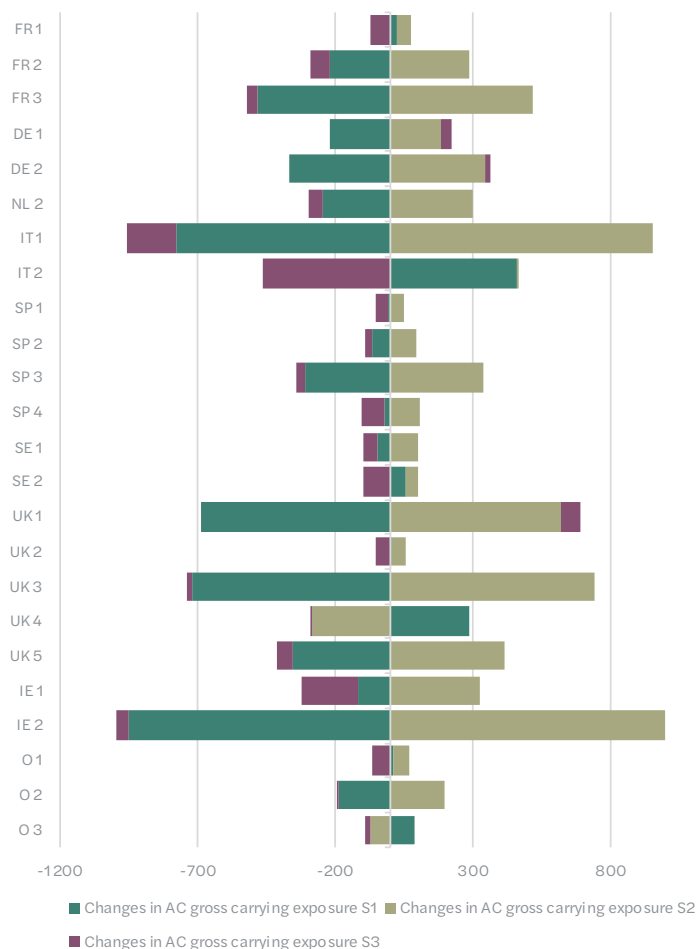
- Most banks experienced a global reallocation of GCE from S1 and S3 to S2. This trend is further highlighted when we compare YE 2022 to YE 2019 (see next slide):
 - Some banks are notable exceptions and showed an opposite change with a decrease in S2 GCE to the benefit of S1 GCE (FR 1, IT 1, SP 1, SP 4, UK 4, IE 1).
- The relative weighting of S3 ECL allowances decreased to the benefit of S2 ECL allowances and to a lesser extent S1 ECL allowances:
 - Notable exceptions are DE 1, SP 1 and SP 2 for which relative weighting of S3 increased to the detriment of S2 or S1 ECL allowances.

3. Key findings

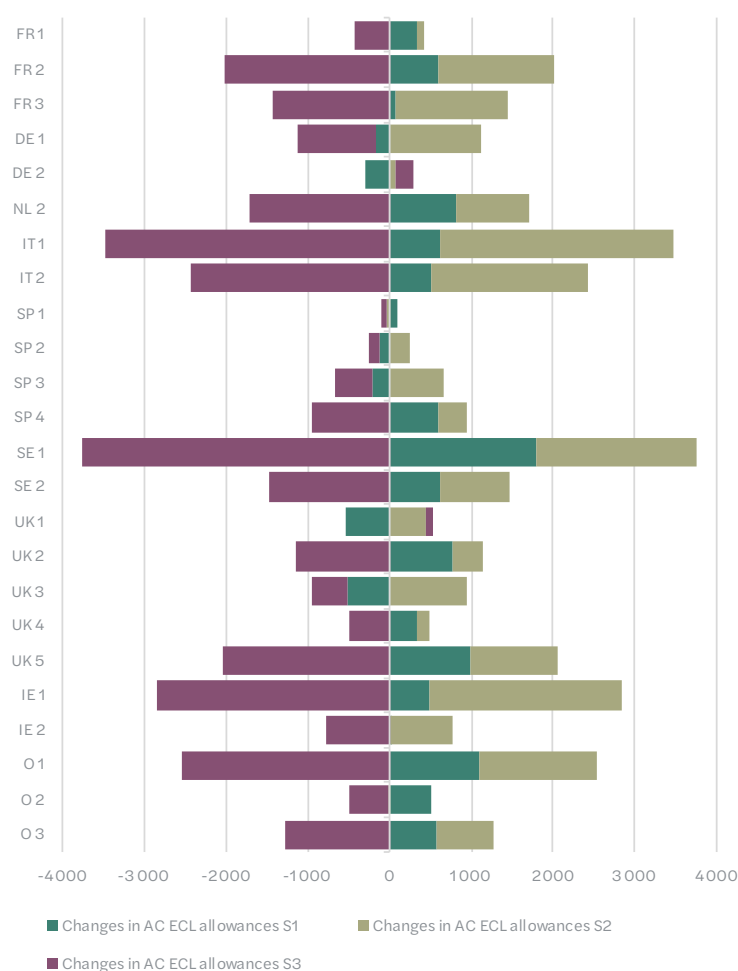
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.10 Breakdown of changes in AC loans gross credit exposure and ECL allowance by stage (YE 2022 vs. YE 2019)

Graph 9.3: Changes in AC loans - GCE by stage
YE 2022 vs YE 2019 (bps)



Graph 9.4: changes in ECL allowances by stage
YE 2022 vs YE 2019 (bps)



Insights

- Over the past three years, the variation of gross carrying amounts resulted in a significant decrease of stage 1 and stage 3 GCE in favor of stage 2 exposures.
- The changes in ECL allowances show a clear and homogeneous trend, with a significant decrease of stage 3 in favor of stage 2, and to a lesser extent stage 1 exposures.
 - This trend is particularly illustrated by Italian banks that experienced a significant decrease of both stage 3 GCE and ECL allowances, due to their non-performing loans deleveraging policies.
- Please note that the scale representing the variation has been doubled compared to the previous graph.

3. Key findings

3.3. Post-model adjustments/overlays



3. Key findings

3.3. Post-model adjustments/overlays

3.3.1 Weight of cumulative overlays in AC loans ECL allowance

25

banks disclosed having overlays or post-model adjustments

24

banks disclosed the amounts of their overlays or post-model adjustments in YE 2022 and YE 2021

23

out of 24 banks have a cumulative overlay that is an ECL charge



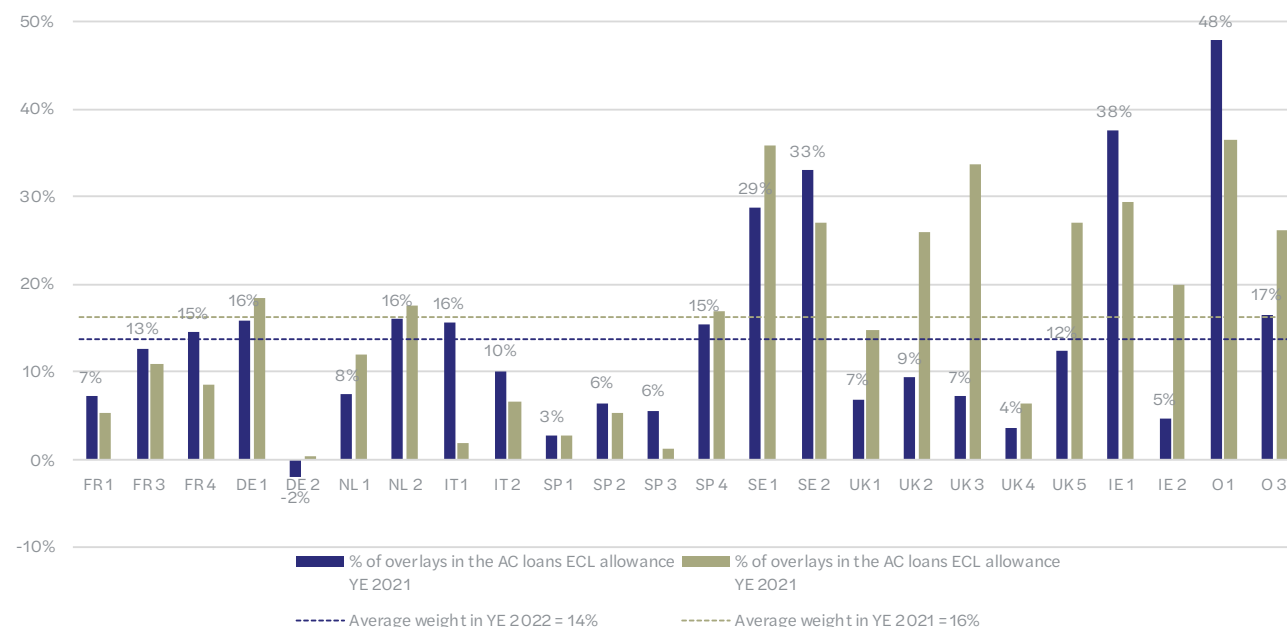
Note: A post-model adjustment is an incremental ECL that increases (or decreases) the ECL resulting from the bank's

IFRS 9 impairment models.

Banks use different designations for such adjustments (management overlay, top-level adjustment, management adjustment, additional adjustment, overlay provisions, etc.)

Several banks disclosed having several post-model adjustments. For each bank, the sum of all its overlays in YE 2022 is called the YE 2022 cumulative overlays.

Graph 10.1: weight of cumulative overlays in AC loans ECL allowance
YE 2022 vs YE 2021



Insights

- The average weight of cumulated overlays in AC loans ECL allowances stands at 14% on average in YE 2022 (16% in YE 2021).
- The weightings in YE 2022 range from -2% to 48% and show stronger 'geographical' trends than in previous years:
 - UK banks significantly decreased their cumulated overlays and now stand below the average.
 - French and Italian banks noticeably increased their cumulated overlays and stand closer to the average.
 - DE 2 is the only bank having a negative cumulated overlay in YE 2022.

3. Key findings

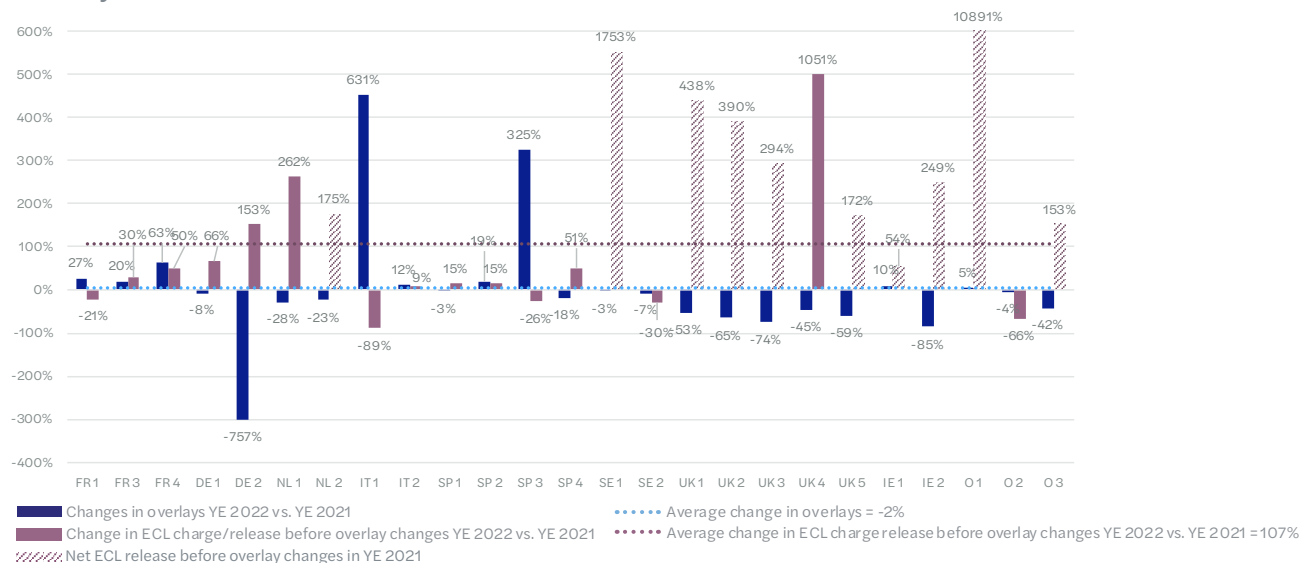
3.3. Post-model adjustments/overlays

3.3.2 Cumulative overlay changes

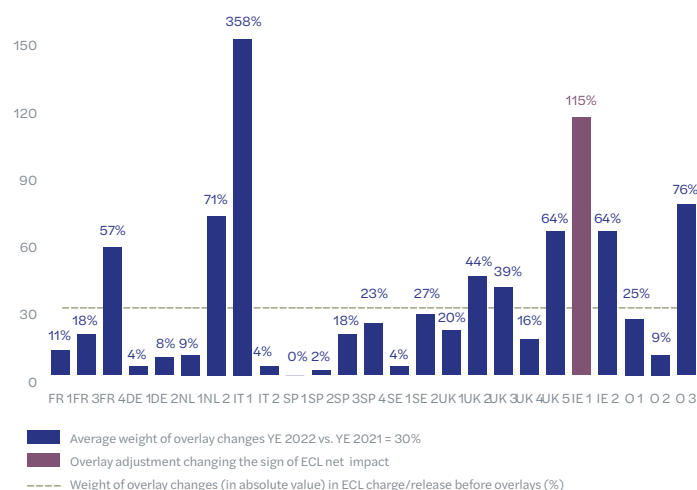
Insights

- On graph 10.2:
 - An increase in overlays or in ECL charge/ release before overlay (positive amount) means an expense in YE 2022.
 - A decrease in overlays means a profit in YE 2022, whereas a decrease in ECL charge/ release before overlays means a lower expense than YE 2021.
 - The hatched purple bars mean the entity moved from a net ECL release before overlay in YE 2021 to a net ECL charge in YE 2022.
 - DE 2 and IT 1 values have been excluded for the purpose of calculating the average change in overlays of -2%. DE 2 negative value is explained by an overlay profit in 2022 that exceeds the cumulative overlay which existed in YE 2021.
- 18 banks experienced an opposite change between ECL charge and overlays, which could be interpreted as an integration of some overlays in their ECL core models and/ or a release of non-modellable overlays dealing with an exception that is not applicable anymore (e.g. Covid-19).
- On average, the cumulative change in overlays is close to zero. However, it is explained by a large number of negative changes in overlays and a fewer but more significant increase in overlays.
- On graph 10.3, the average weight of the change in overlays in ECL profit/loss before overlays decreased from 48% in YE 2021 to 30% in YE 2022. The IT 1 weight has been excluded for the purpose of calculating the average weight of overlay changes of 30%.
- The IE 1 weight in graph 10.3 is mainly explained by a very low level of ECL charges in YE 2022.

Graph 10.2: Change in cumulative overlays vs. change in ECL charge/release before overlay YE 2022 vs YE 2021



Graph 10.3: Weight of cumulative overlay change (absolute value) in ECL charge/ release before overlays (%) YE 2022 vs YE 2021



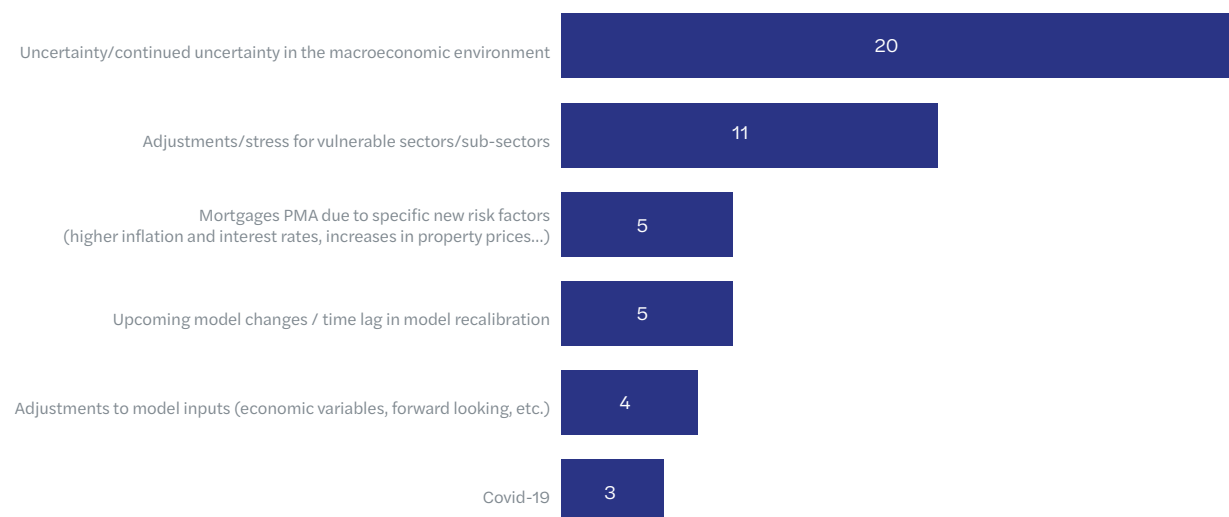
Note: A post-model adjustment is an incremental ECL that increases (or decreases) the ECL resulting from the bank's IFRS 9 impairment models. The weight of overlays in ECL charge/profit before overlays (%) at YE 2022 has been calculated by dividing the changes in overlays in absolute value by the ECL charge/profit in P&L before overlays.

3. Key findings

3.3. Post-model adjustments/overlays


3.3.3 Most frequent PMA/overlays underlyings

Graph 10.4: most frequent PMA/overlays underlyings



Insights

- By 'macroeconomic environment', banks were referring to a wide range of elements such as the war in Ukraine, rise in interest rates, commodity prices and inflation.
- Some PMAs were related to each other: this was particularly the case for macroeconomic uncertainties PMAs that were often assessed and allocated on a specific sub-sector basis.

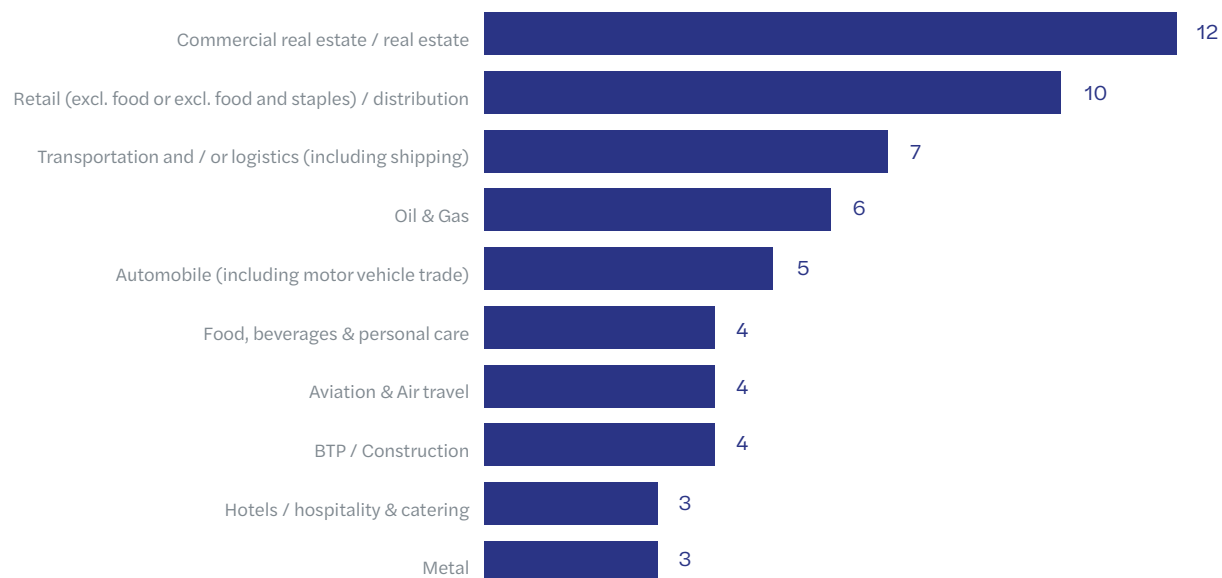
 Note: A post-model adjustment is an incremental ECL that increases (or decreases) the ECL resulting from the bank's IFRS 9 impairment models. Banks use different designations for such adjustment (management overlay, top-level adjustment, management adjustment, additional adjustment, overlay provisions, etc.) Several banks disclosed having several post-model adjustments. There could be some overlaps between the different underlyings of overlays/post model adjustments. Sometimes two different underlyings have been selected for one overlay/post-model adjustment. Given the wide diversity of overlay underlyings, categorisation requires judgement and is made on a subjective basis. We have reported overlay underlyings that have been quoted by at least 3 banks.

3. Key findings

3.3. Post-model adjustments/overlays


3.3.4 Sectors disclosed as vulnerable

Graph 11: Most quoted vulnerable sectors



Insights

- 11 banks did not provide explicit information on the sectors that they consider as vulnerable (vs six banks in YE 2021).
- This ranking is dependent on the underlying portfolios of each bank within the sample.

 Note: A vulnerable sector is a portfolio or sub-portfolio that has been disclosed as a vulnerable sector due to specific issues in the macroeconomic environment (war in Ukraine or other issues).

3. Key findings

3.4. Forward looking information

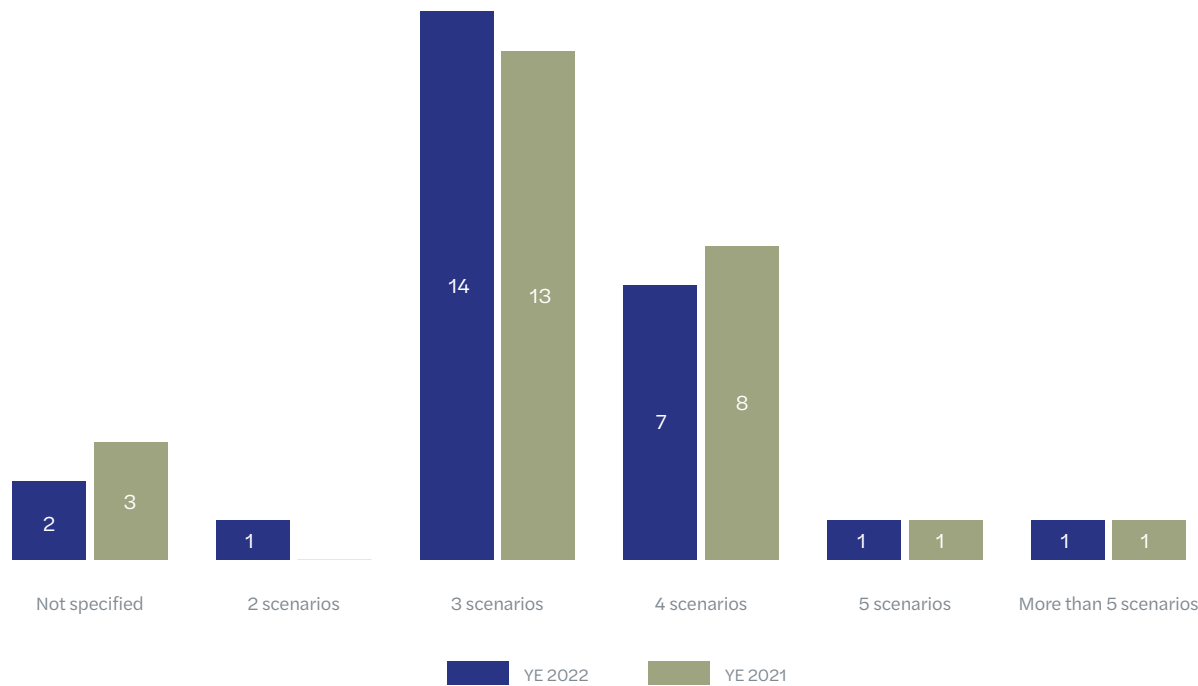


3. Key findings

3.4. Forward looking information

3.4.1 An overview of macro-economic scenarios


Graph 12.1: number of macro-economic scenarios projected calculating ECL




20
 banks disclosed the weighting of each scenario in YE 2022 and YE 2021

Insights

- A large part of the sample gave quantitative information, such as the weighting identified for each scenario as well as underlying parameters.
- DE 1 and O 2 did not specify the number of scenarios that are used for ECL forward looking purposes.
- IT 1 did not consider using a positive scenario in the light of persistent uncertainties and used 2 scenarios in YE 2022, compared to three scenarios in YE 2021.
- The bank UK 4 has 50 scenarios (with a weight of 2% for each scenario).
- Due to the wide range of approaches taken by each bank, there was limited benchmarking capacity.

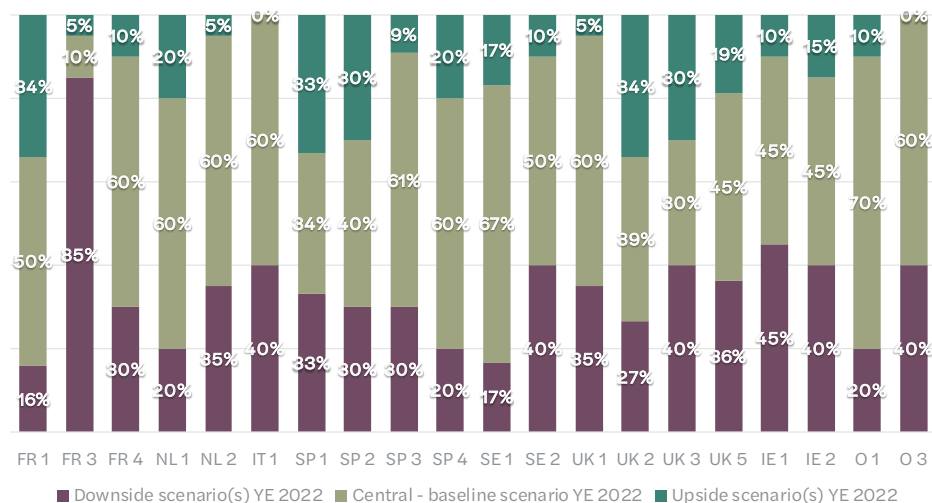
 Note: Scenarios designations have been classified in three categories following the disclosed: the downside scenario (or severe), the baseline scenario (or central) and the upside scenario (or optimistic). When the number of scenarios was above three, comprised of two downside scenarios for instance, the weightings of the two downside scenarios were added.

3. Key findings

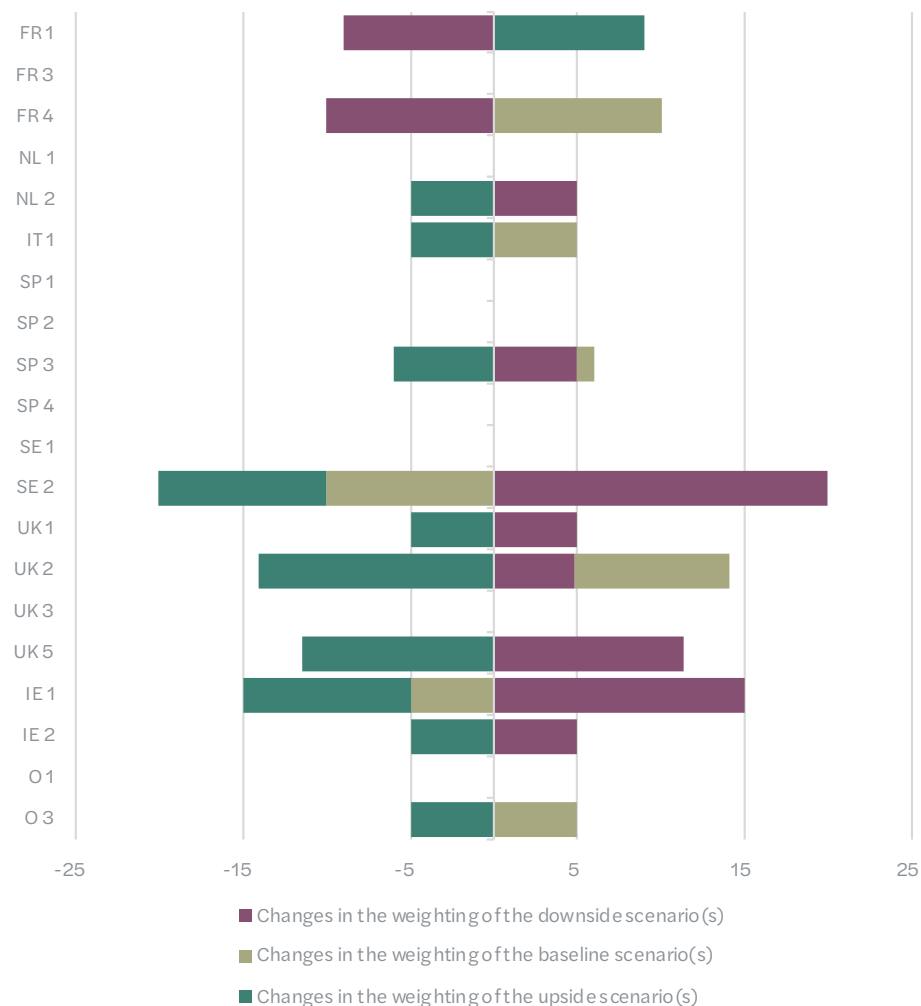
3.4. Forward looking information

3.4.2 Weightings of macro-economic scenarios

Graph 12.2: weightings of the scenarios in YE 2022



Graph 12.3: changes in the weightings of the scenarios YE 2022 vs YE 2021



Insights

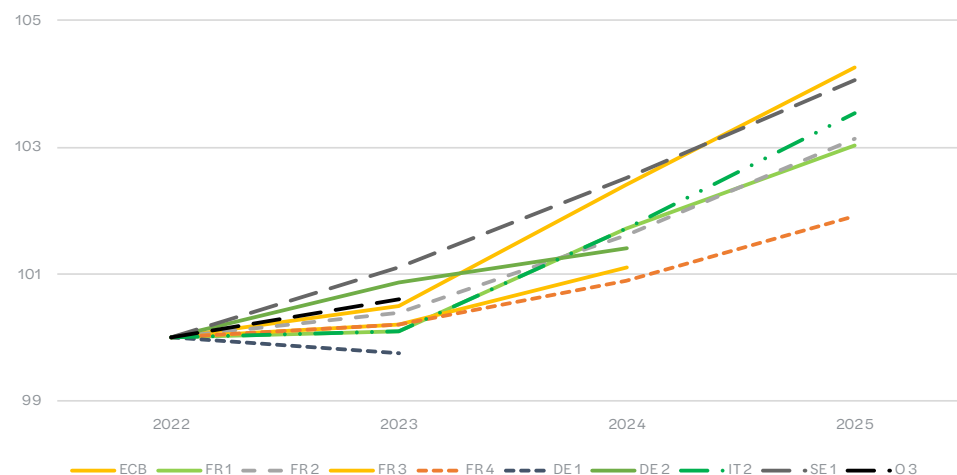
- The sample is rather heterogeneous regarding the weightings of each scenario (upside, baseline and downside) in YE 2022 – even within each country.
- Almost a quarter of the sample (seven banks at YE 2022 vs 12 banks in YE 2021) weighted their upside scenario(s) at or above 20%.
- On the other hand, 18 banks weighted their downside scenario(s) at or above 20% (20 banks in YE 2021).
- French banks stand out for having changed the weighting of their negative scenarios downwards.
- 12 out of 20 banks changed the weightings of their scenarios between YE 2021 and YE 2022. An empty line in graph 12.3 means that the weightings are the same as in YE 2021.

3. Key findings

3.4. Forward looking information

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 12.4: Eurozone GDP growth assumptions YE 2022



Insights

- The level of detail is quite heterogeneous among this sample, as some banks will not present their GDP growth assumptions until 2025, hindering full comparability between the banks in this sample.
- The banks are globally more conservative with regards to the ECB projections.
 - The range of the assumptions is quite extensive:
 - For 2023, the range goes from -0.3% (DE 1) to 1.1% (SE 1).
 - For 2024, the range goes from 0.5% (DE 2) to 1.6% (FR 1 and IT 2).

Baseline scenario: UK GDP growth				
	2022	2023	2024	2025
ECB	3.4%	0.5%	1.9%	1.8%
FR 1	3.2%	0.1%	1.6%	1.3%
FR 2	3.2%	0.4%	1.2%	1.5%
FR 3	2.9%	0.2%	0.9%	
FR 4		0.2%	0.7%	1.0%
DE 1	3.3%	-0.3%		
DE 2	3.5%	0.9%	0.5%	
IT 2	3.3%	0.1%	1.6%	1.8%
SE 1	3.3%	1.1%	1.4%	1.5%
O 3		0.6%	2.5%	

 We compare in this graph the Eurozone GDP growth rate assumptions used by the banks with the macro-economic projections used by the European Central Bank published in December 2022 (source: <https://www.ecb.europa.eu/mopo/strategy/ecana/html/table.en.html>)

The chart presents the annual GDP growth rate for each year, whereas the graph represents the cumulative GDP growth rate (index base 100 = 2021).

O 3 bank is an exception as the growth rate disclosed for 2024 and 2025 is a three-year cumulative growth rate for the period 2023-2025 (including 0.6% expected for 2023).

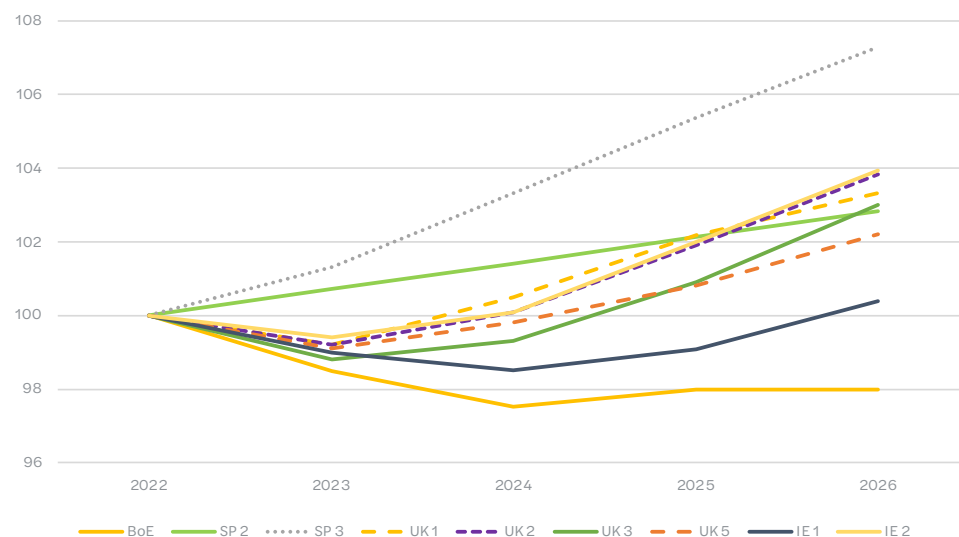
- Bank assumption more optimistic than the BoE projections (i.e. higher GDP growth rate)
- Bank assumption less optimistic than the BoE projections (i.e. lower GDP growth rate)

3. Key findings

3.4. Forward looking information

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 12.5: UK GDP growth assumptions YE 2022



Insights

- The level of detail is quite high as the sample, taken as a whole, presents GDP growth rates that go beyond the BoE projections.
- All the banks in the sample are more optimistic than the BoE.
- The assumptions of the banks lead to various outcomes compared to the BoE projections, but with an overall similar trend in the curves among the UK and Irish banks (especially an economic downturn in 2023 followed by a moderate upturn in 2024).
- Spanish banks still expect a positive economic growth for the next three years.

Baseline scenario: UK GDP growth					
	2022	2023	2024	2025	2026
Bank of England	4.3%	-1.5%	-1.0%	0.5%	
SP 2		0.7%	0.7%	0.7%	0.7%
SP 3		1.3%	2.0%	2.0%	1.8%
UK 1		-0.8%	1.3%	1.7%	1.1%
UK 2	3.3%	-0.8%	0.9%	1.8%	1.9%
UK 3	4.0%	-1.2%	0.5%	1.6%	2.1%
UK 5	4.4%	-0.9%	0.7%	1.0%	1.4%
IE 1	4.3%	-1.0%	-0.5%	0.6%	1.3%
IE 2		-0.6%	0.7%	1.9%	1.9%

We compare in this graph the UK GDP growth rate assumptions used by the banks with the macro-economic projections used by the Bank of England published in the Monetary Policy Report from November 2022, Table 1.B (source: <https://www.bankofengland.co.uk/monetary-policy-report/2022/november-2022>).

The chart presents the annual GDP growth rate for each year, whereas the graph presents the cumulative GDP growth rate (index base 100 = 2021).

SP 2 uses a global average GDP growth rate for the period 2023-2027.

IE 2 uses a global average GDP growth rate for the period 2024-2026. We have assumed for these banks a constant annual GDP growth rate.

We left empty boxes for banks that did not disclose an updated GDP growth rate at the end of 2022

■ Bank assumption more optimistic than the BoE projections (i.e. higher GDP growth rate)

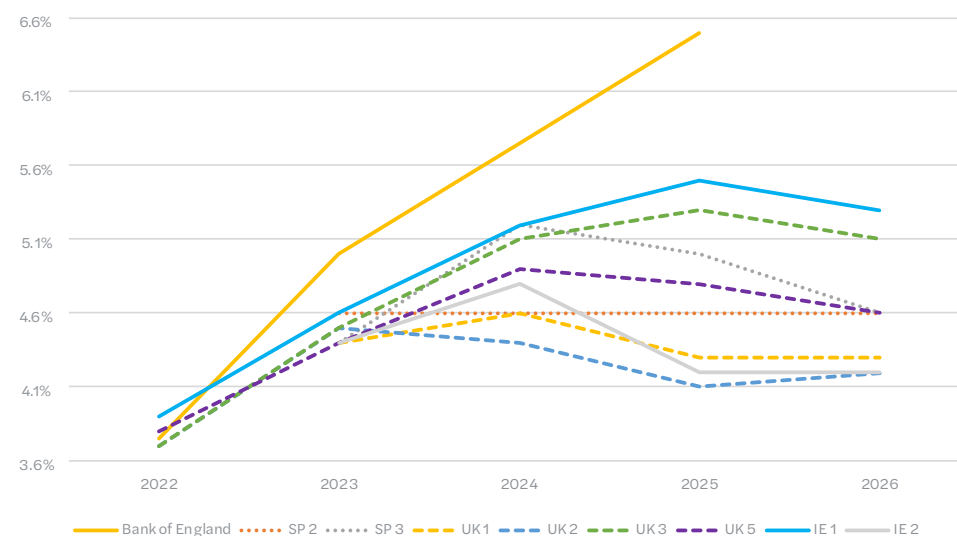
■ Bank assumption less optimistic than the BoE projections (i.e. lower GDP growth rate)

3. Key findings

3.4. Forward looking information

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 12.6: UK unemployment rate assumptions YE 2022



Insights

- All banks are more optimistic than the BoE from 2023 to 2025, with an increasing gap between banks and BoE forecasts throughout the next three years.
- The gap between banks' respective assumptions is also widening: it is limited to 0.2% in 2023 and amounts to 1.4% in 2025.

Baseline scenario: UK unemployment rate					
	2022	2023	2024	2025	2026
Bank of England	3.8%	5.0%	5.8%	6.5%	
SP 2		4.6%	4.6%	4.6%	4.6%
SP 3		4.4%	5.2%	5.0%	4.6%
UK 1		4.4%	4.6%	4.3%	4.3%
UK 2	3.7%	4.5%	4.4%	4.1%	4.2%
UK 3	3.7%	4.5%	5.1%	5.3%	5.1%
UK 5	3.8%	4.4%	4.9%	4.8%	4.6%
IE 1	3.9%	4.6%	5.2%	5.5%	5.3%
IE 2		4.4%	4.8%	4.2%	4.2%

We compare in this graph the UK unemployment rate assumptions used by the banks with the macro-economic projections used by the Bank of England published in the Monetary Policy Report from November 2022, Table 1.B (source: <https://www.bankofengland.co.uk/monetary-policy-report/2022/november-2022>).

The chart and the graph present the annual unemployment rate for each year.

SP 2 uses a global average unemployment rate for the period 2022-2026.

IE 2 uses a global average unemployment rate for the period 2024-2026. We have assumed for these banks a constant annual unemployment rate.

■ Bank assumption more optimistic than the BoE projections (i.e. higher GDP growth rate)

■ Bank assumption less optimistic than the BoE projections (i.e. lower GDP growth rate)

3. Key findings

3.5. Other topics



3. Key findings

3.5. Other topics

3.5.1 Portfolios reclassifications

In YE 2022, three banks reclassified financial assets during the reporting period.

The following table presents the information provided by those banks based on the disclosures required by IFRS 7.

Information disclosed	SP 2	UK 5	O 3
Reclassification performed	From fair value to other comprehensive income to amortised cost	From amortised cost to fair value to profit or loss	From fair value to other comprehensive income to amortised cost
Date of reclassification	H1 2022	June 2022	1 st April 2022
Detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements	Yes Change of strategy in the business model of a Polish subsidiary which has entailed the cessation of a significant element of its commercial activity corresponding to customer deposits.	Yes Cessation of new mortgage business to the customers.	Yes Reclassified portfolio made up of high-quality liquid assets, primarily US government treasuries and US government agency mortgage-backed securities. Significant growth and extension of the business. Following the start of these activities the portfolio is no longer held in a business model to collect the contractual cash flows and sell the assets, but is instead solely held to collect the contractual cash flows until the assets mature.
Amount reclassified into and out of each category	Yes Details mostly provided in H1 2022 financial statements.	Yes	Yes
For reclassification from FV-OCI to AC in the current reporting period			
-Fair value of the financial assets at the end of the reporting period	Yes	N/A	Yes
-Fair value gain or loss that would have been recognised in profit or loss or OCI during the reporting period if the financial assets had not been reclassified	No	N/A	Yes

3. Key findings

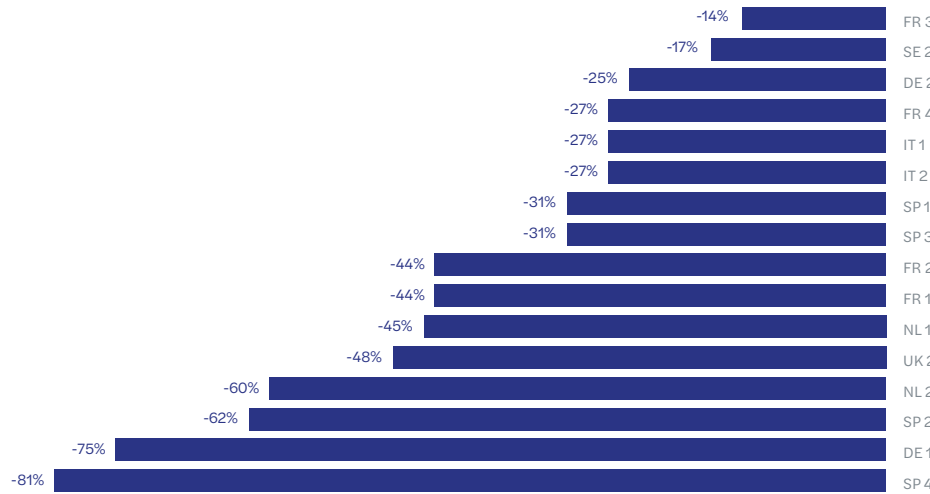
3.5. Other topics

3.5.2 TLTRO III

16

banks disclosed information about TLTRO III

Graph 13.1: Change in TLTRO III amounts YE 2022 vs YE 2021, in %



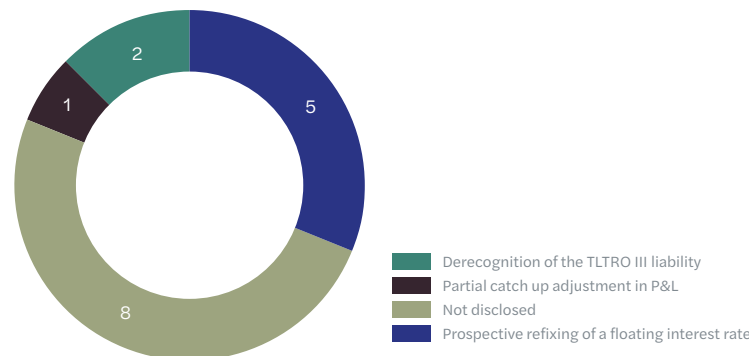
Insights

- All banks having TLTRO III liabilities early repaid part of them in 2022.
- Eight banks did not disclose the accounting treatment applied to the modification of the interest rate calculation decided by the ECB in October 2022.
- Most banks that disclosed this information treated this change as a refixing of a floating interest rate, without any impact on profit or loss.
- Due to early repayments in 2022, the impacts of the change in the interest calculation formula may have been estimated to be insignificant for several banks.

Graph 13.2: Accounting treatment applied to formula modification in October 2022

8

banks disclosed information regarding the accounting treatment applied to TLTRO III modification in October 2022



🔍 The ECB's TLTRO III funding program offers long-term funding at attractive interest rates subject to the satisfaction of predefined lending performance thresholds. In October 2022, the ECB modified the interest rate formula for the period starting from 23 November 2022, for which the interest rate calculation is not based on the average DFR (i.e. Deposit Facility Rate) 'origin to date' anymore. From 23 November 2022 until the maturity date or early repayment date, the interest rate is indexed to the average DFR over this period.

Contacts

Coordination

Vincent Guillard

Partner
+33 1 49 97 65 52
vincent.guillard@mazars.fr

Nicolas Millot

Senior manager
+33 1 49 97 61 46
nicolas.millot@mazars.fr

France

Alexandra Kritchmar

Partner
+33 1 49 97 64 19
alexandra.kritchmar@mazars.fr

Mathieu Ribes

Partner
+33 1 49 97 60 00
matthieu.ribes@mazars.fr

Germany

Dirk Driesch

Partner
+49 40 288 01 3330
dirk.driesch@mazars.de

Heike Hartenberger

Senior manager
+49 69 967 65 1629
heike.hartenberger@mazars.de

Italy

Silvia Carrara

Partner
+39 34 5843 23 36
Silvia.Carrara@mazars.it

Manuel Bellomi

Manager
+ 39 34 0840 28 76
manuel.bellomi@mazars.it

Ireland

Michael Tuohy

Partner
+353 1 449 64 33
mtuohy@mazars.ie

Michal Cotelnic

Manager
+353 89 4984803
michal.cotelnic@mazars.ie

Netherlands

Carel Van Oldenbeek

Partner
+31 88 277 24 67
Carel.vanOldenbeek@mazars.nl

Mandy van Bruggen

Manager
+31 647946725
mandy.vanbruggen@mazars.nl

Spain

Carlos Marcos

Partner
+34 915 624 030
carlos.marcos@mazars.es

Miguel Gomez

Supervisor
+34 915 624 030
miguel.gomez@mazars.es

United Kingdom

Pauline Pelissier

Partner
+44 78 8128 3770
pauline.pelissier@mazars.co.uk

Xavier Larrieu

Partner
+44 78 8128 3791
xavier.larrieu@mazars.co.uk

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