



Financial reporting of European banks

What are the lessons learnt from the Covid-19 impact on Expected Credit Losses?

Based on 2021 annual reports provided by European banks before 1 April 2022

mazars

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1.1 Executive summary

Most noticeable events in year end (YE) 2021 are:

- A global relative increase in the weight of stage 2 exposures and loss allowances since 2019.
- An average increase of the gross carrying exposures by 5% coupled with an average decrease of the loss allowances by 13% in YE 2021 (vs respectively +7% and +28% in YE 2020).
- An average Amortised Cost loan coverage ratio that slightly decreased compared to 2019 (1.53% in YE 2021 vs 1.57% in YE 2019), mainly due to a lower coverage ratio for stage 3 instruments that is not completely offset by the relative increase of stage 1 and stage 2 coverage ratios.
- An increasing weight of post-model adjustments/overlays in ECL allowances compared to YE 2020 (17% of the loss allowances in YE 2021 vs 14% in YE 2020).



+70%

change in average ECL charge/profit
over YE 2020/2021 vs YE 2019
(-81% YE 2021 vs. YE 2020)

9

banks out of 26 have a net ECL Profit
in YE 2021
(none at YE 2020)



20%

average share of ECL charge in
operating profit or loss before ECL in
YE 2021
(78% YE 2020)

48%

average weight of change in the
post-model adjustments in the ECL
P&L impact in YE 2021
(27% at YE 2020)

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, with the exception of the press releases dedicated to the Ukrainian situation.

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 each graph.

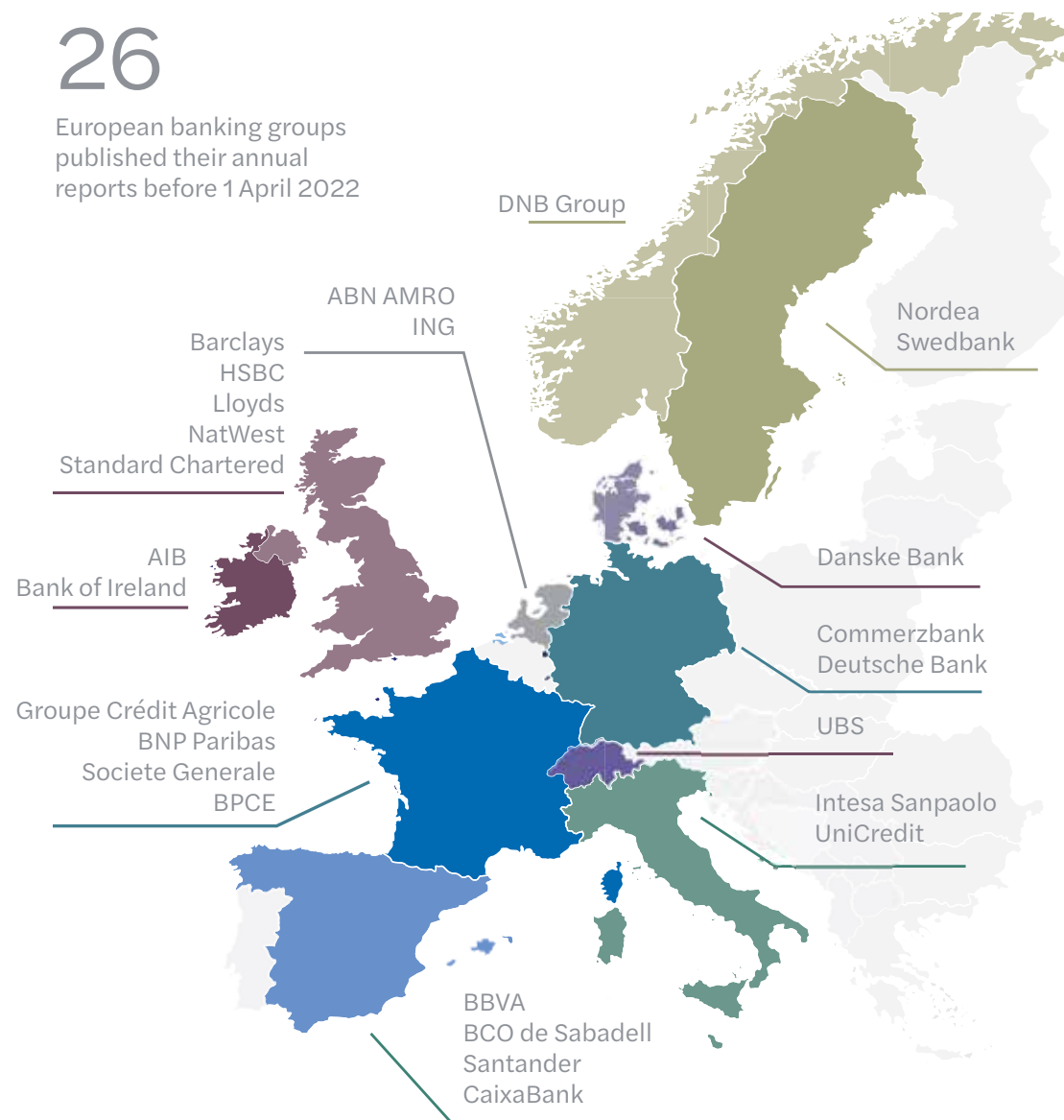
 **The graphs using figures that required specific calculations are indicated with the ‘magnifying glass’ icon, as seen on the left.**

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

26

European banking groups published their annual reports before 1 April 2022



3. Key findings

3.1. ECL charge impact of YE 2021 on the profit or loss and ECL allowances

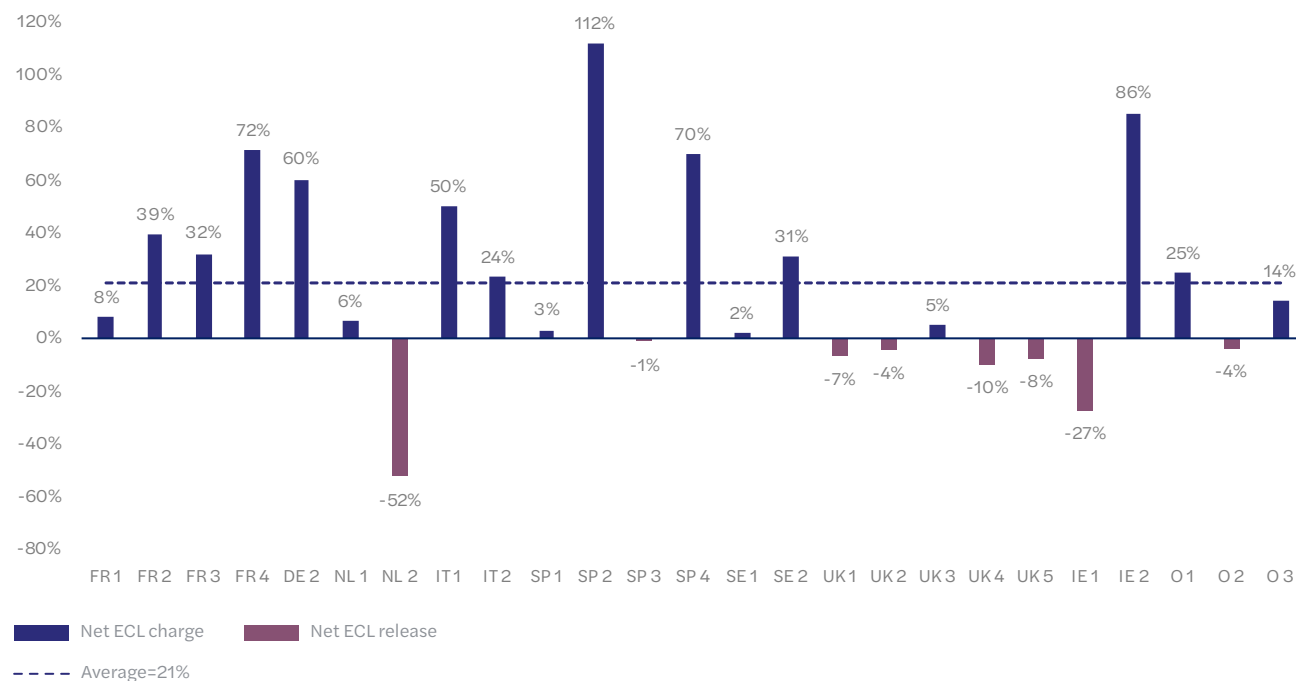


3. Key findings

3.1. ECL charge impact of YE 2021 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 2021 vs YE 2020)



Insights

- 17 banks in the sample experienced positive growth in their operating profit or loss before ECL charge.
- 8 banks experienced a decrease in their operating profit or loss before ECL charge, but this operating profit or loss remains positive.
- Bank DE 1 is not represented in this graph because its YE 2020 value was negative.

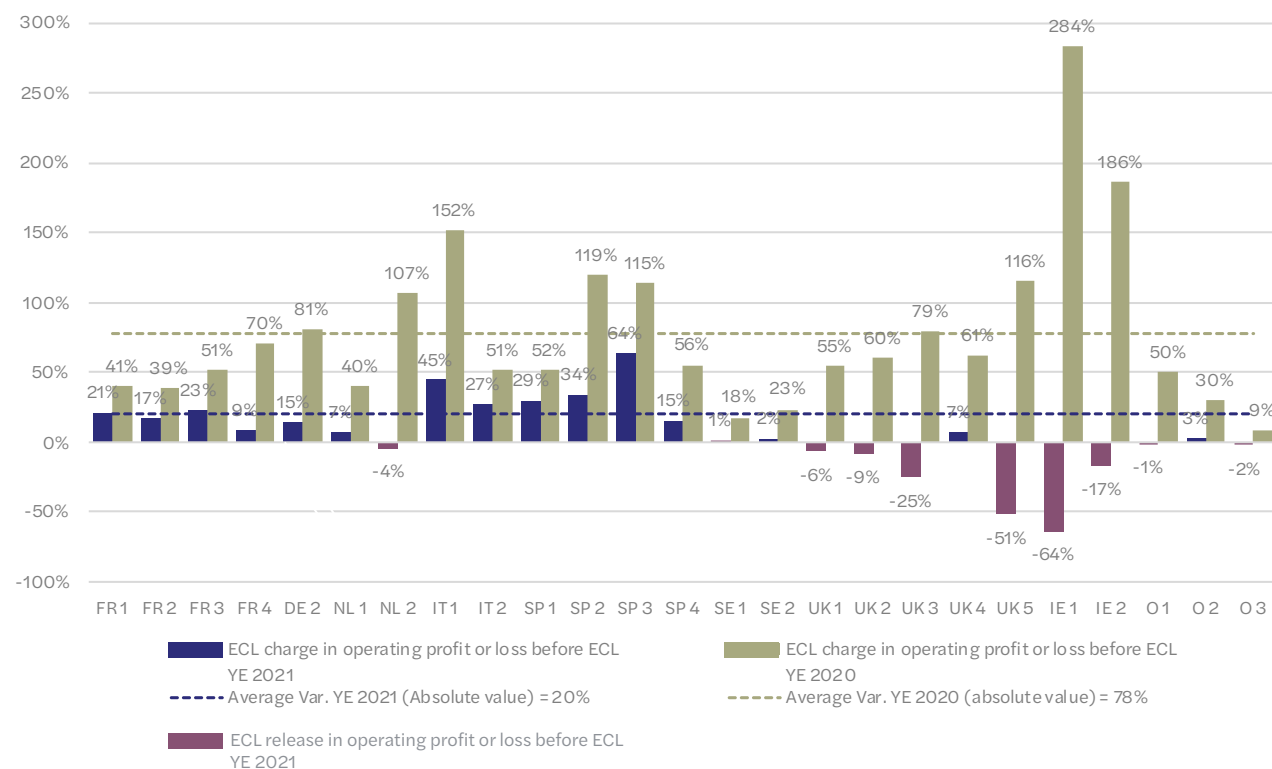
 Note: The “operating profit before ECL charge/release” indicator has been computed with data available in the income statements of the banks in our sample. It includes salaries and other operating expenses, amortisation, depreciation or impairment charges for tangible and intangible non-financial assets (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 2021 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 20% in YE 2021 (vs 78% in YE 2020).
- In YE 2021, the median amounted to 15% (53% in YE 2020) with a range from -64% to 64%.
- The average ratio of ECL charge divided by the operating profit or loss before the ECL charge in YE 2021 has come back to its level of YE 2019 (21%).
- Bank DE 1 is not represented in this graph because its YE 2020 value was negative.



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.

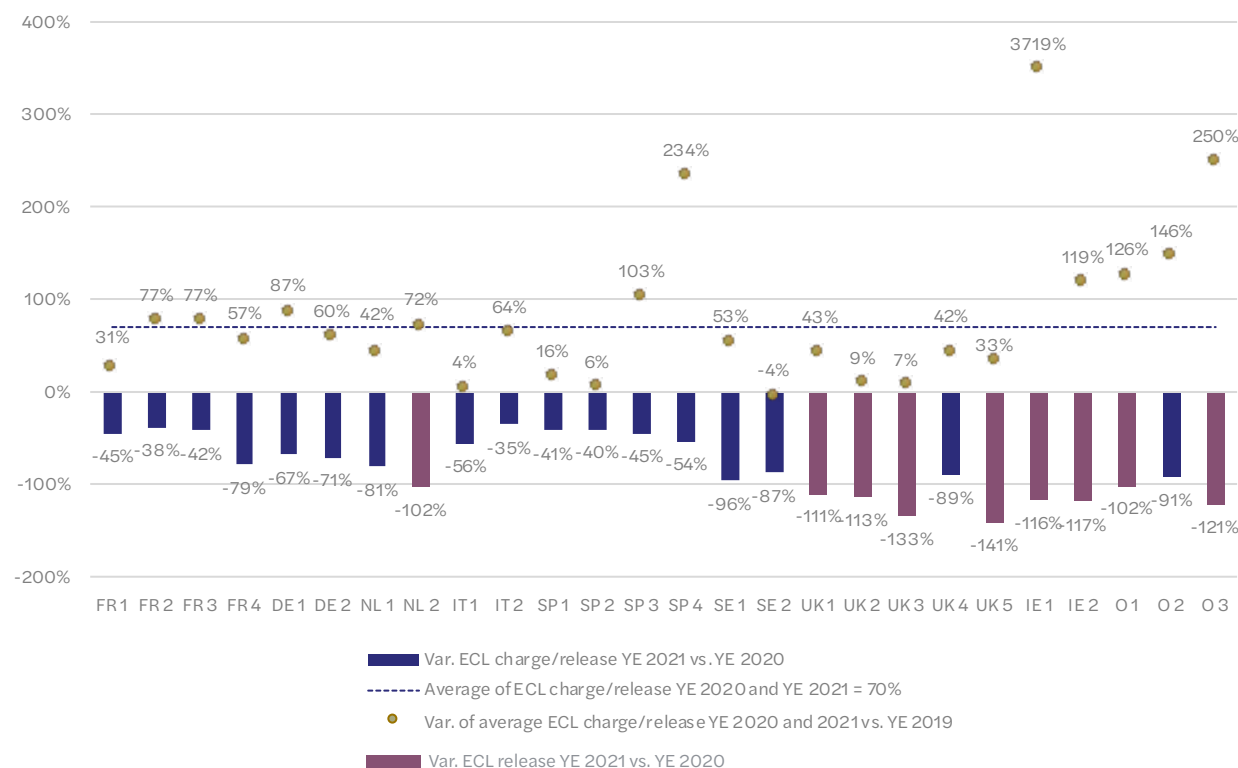
3. Key findings

3.1. ECL charge impact of YE 2021 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 2021 vs YE 2020 - Var. average ECL charge 2021 & 2020 vs. YE 2019



Insights

- In YE 2021, all banks in the sample present a significant decrease in their ECL charge compared to YE 2020: the average decrease is -81%.
- 38% of the banks (9 banks) present an ECL net release at the end of YE 2021 (variation > 100%).
- The average ECL charge over YE 2020 and YE 2021 has increased by 70% compared to the ECL charge in YE 2019 within a range of -4% to 250%.
- The IE 1 increase of the average ECL charge over YE 2020 and YE 2021 compared to YE 2019 is mainly explained by a very low level of ECL charges in 2019. This value has been excluded for the purpose of calculating the average increase of 70% mentioned above.

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.

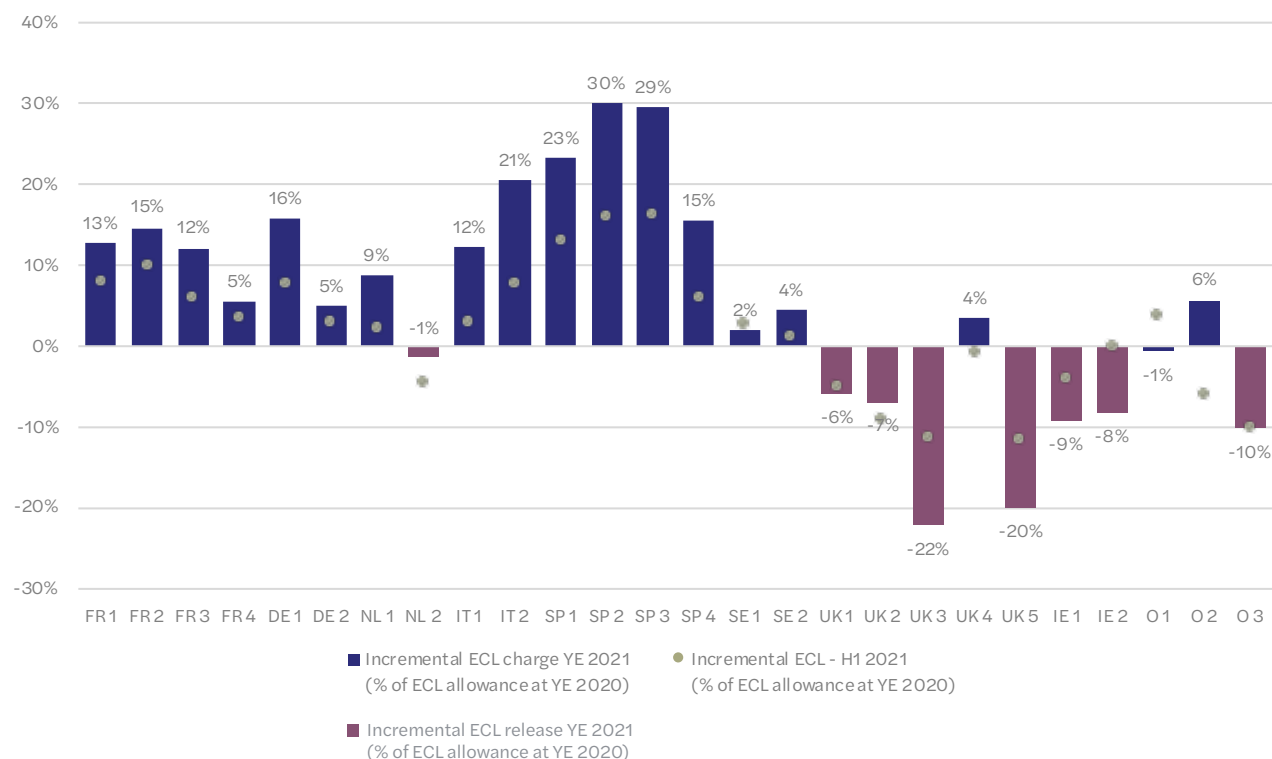
3. Key findings

3.1. ECL charge impact of YE 2021 on the profit or loss and ECL allowances

3.1.4 Incremental ECL (% of ECL allowances)

Graph 4: Incremental ECL

(charge at YE 2021 expressed as a % of ECL allowance at YE 2020
charge at H1 2021 expressed as a % of ECL allowance at YE 2020)



Insights

- In YE 2021, there is a wide range of incremental ECL allowances (from +30% to -22%).
- The pace of the ECL charge/increase throughout the year 2021 has also been very diverse depending on the banks:
 - Some banks regularly endowed/released their ECL between H1 and H2 2021 (e.g. Spanish banks, UK 3 or UK 5)
 - In some cases, ECL charges/releases in YE 2021 were made either mainly in H1 2021 (e.g. SE 1, UK 1 and O 3), or in H2 2021 (e.g. IE 2)
 - At last, some banks experienced an opposite movement in their ECL charge between H1 and H2 2021: for example, O 2 released its ECL by 5% in H1 2021, but globally increased it in YE 2021 by 6%, meaning a significant ECL charge was accounted for in H2 to erase the ECL release of H1 2021.

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

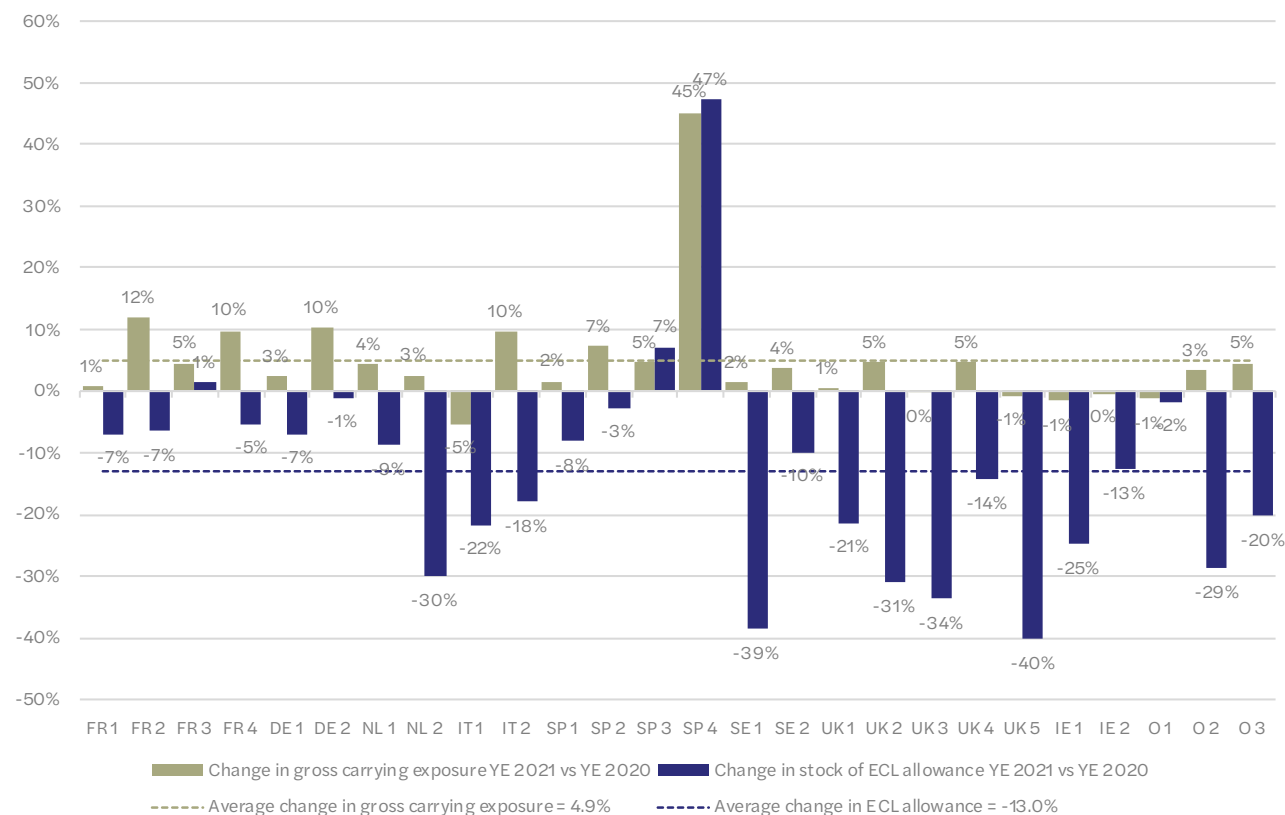


3. Key findings

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 2021 compared to YE 2020



Insights

- Globally gross credit exposures increased (average +5%).
- ECL allowances decreased by 13% on average but within a large range from -40% to +47%.
- The values of SP 4 are explained by an acquisition in H1 2021. Without SP 4, the averages would have been:
 - An increase in GCE by 3%
 - A decrease in ECL allowances by -15%
- Half the banks in the sample experienced a decrease of their ECL allowances by at least 11%. Banks that have had a limited change in their ECL allowances are mainly French and German banks.

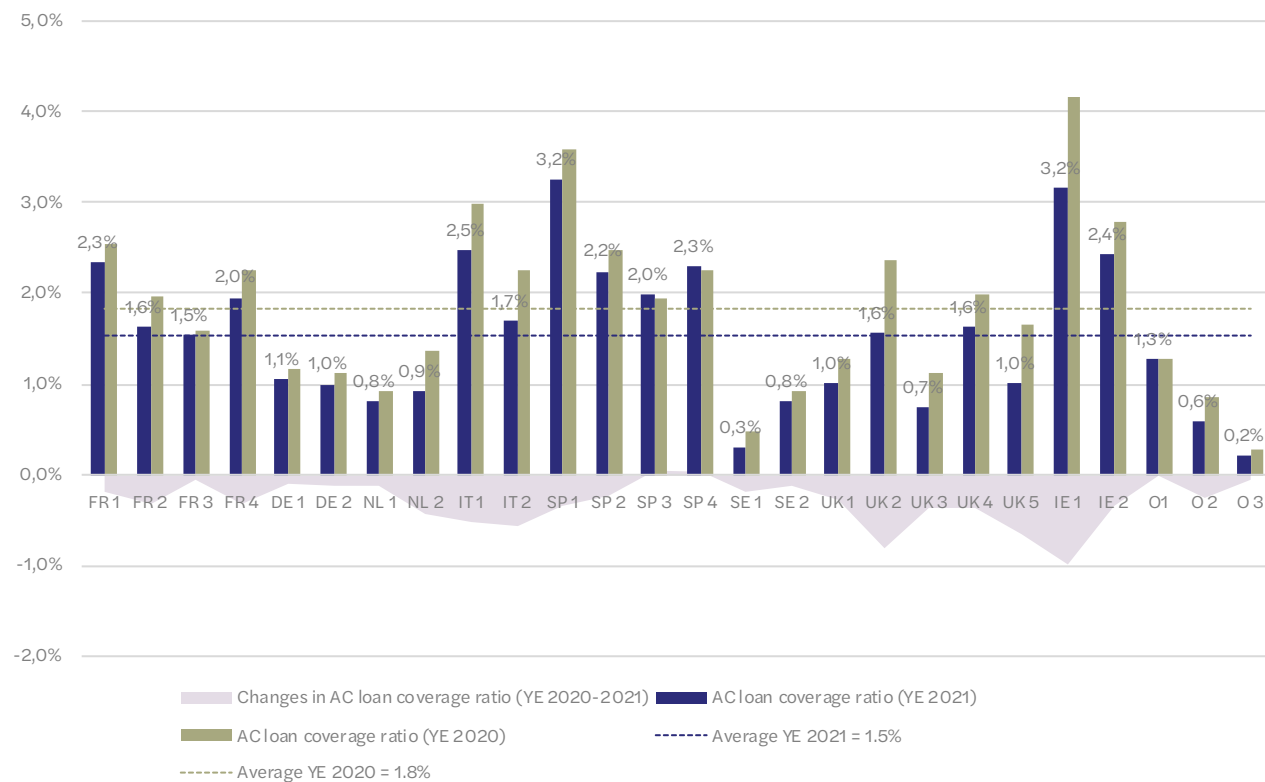
 Note: the definition of the (gross) exposure is not always provided and may differ from the definition of a “gross carrying amount” compliant with IFRS 9, which is intended to reflect the approximate notional amount before impairment (e.g. fair value rather than the gross carrying amount may be included 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 2021 vs. YE 2020)

Graph 6.1: AC loans coverage ratio YE 2021 vs. YE 2020



Insights

- The average ECL coverage ratio of AC loans is 1.5% in YE 2021 (1.8% in YE 2020).
- Almost all banks show a decrease in their coverage ratio, even banks that have an ECL charge in YE 2021.
- We still observe significant variation in the levels of global ECL coverage ratio (between 0.2% and 3.2% in YE 2021 compared to 0.3% to 4.2% in YE 2020).
- As for YE 2020, there is fairly good consistency between each country: French banks are close to the average, while Spanish, Italian 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 don't disclose enough information to enable the calculation of this ratio.

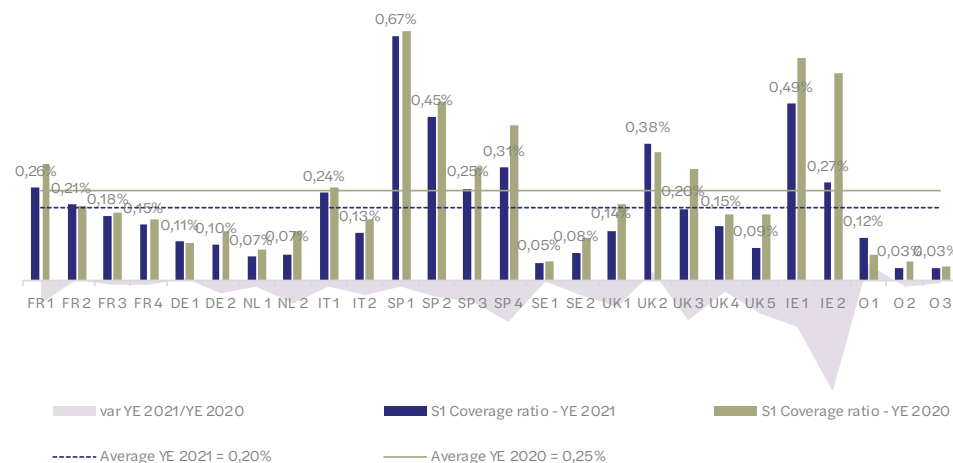
The comparison of quantitative findings should be examined with caution due to the differing natures and risk profiles of bank portfolios. Often, more granular additional information (e.g. by geographical area or by type of loan) would be necessary to fully understand the differences between the results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

3. Key findings

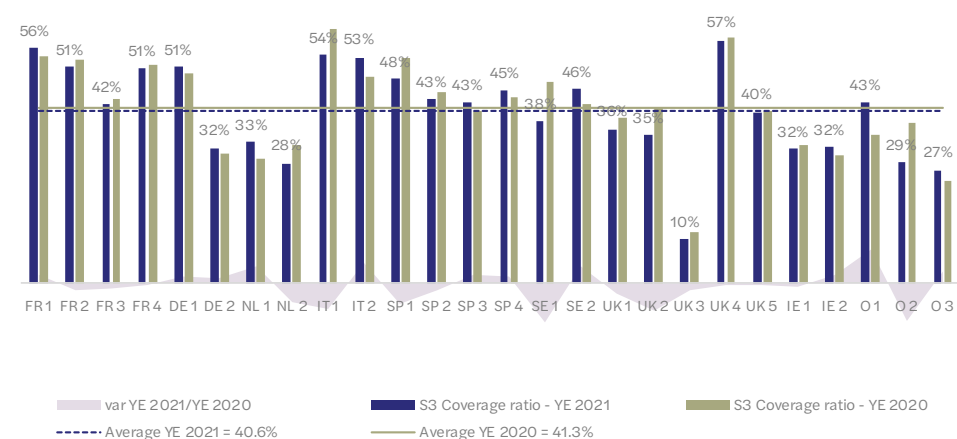
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.3 AC loans: coverage ratio broken down by stage (YE 2021 vs. YE 2020)

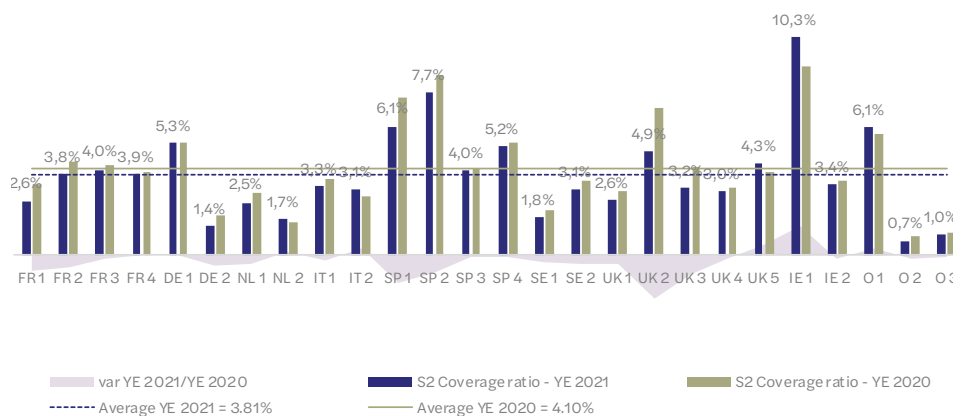
Graph 6.2: AC loans - Stage 1 coverage ratio - YE 2021 vs. YE 2020



Graph 6.4: AC loans - Stage 3 coverage ratio - YE 2021 vs. YE 2020



Graph 6.3: AC loans - Stage 2 coverage ratio - YE 2021 vs. YE 2020



Insights

- On average, the coverage ratios decreased for all stages compared to YE 2020.
- Most of the banks experienced a decrease in their stage 1 and stage 2 AC loan coverage ratio.
- Changes in the stage 3 AC loan coverage ratio varied from one bank to another, although most banks of the same country in the sample present stage 3 coverage ratios that are quite consistent between them in YE 2021.

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.

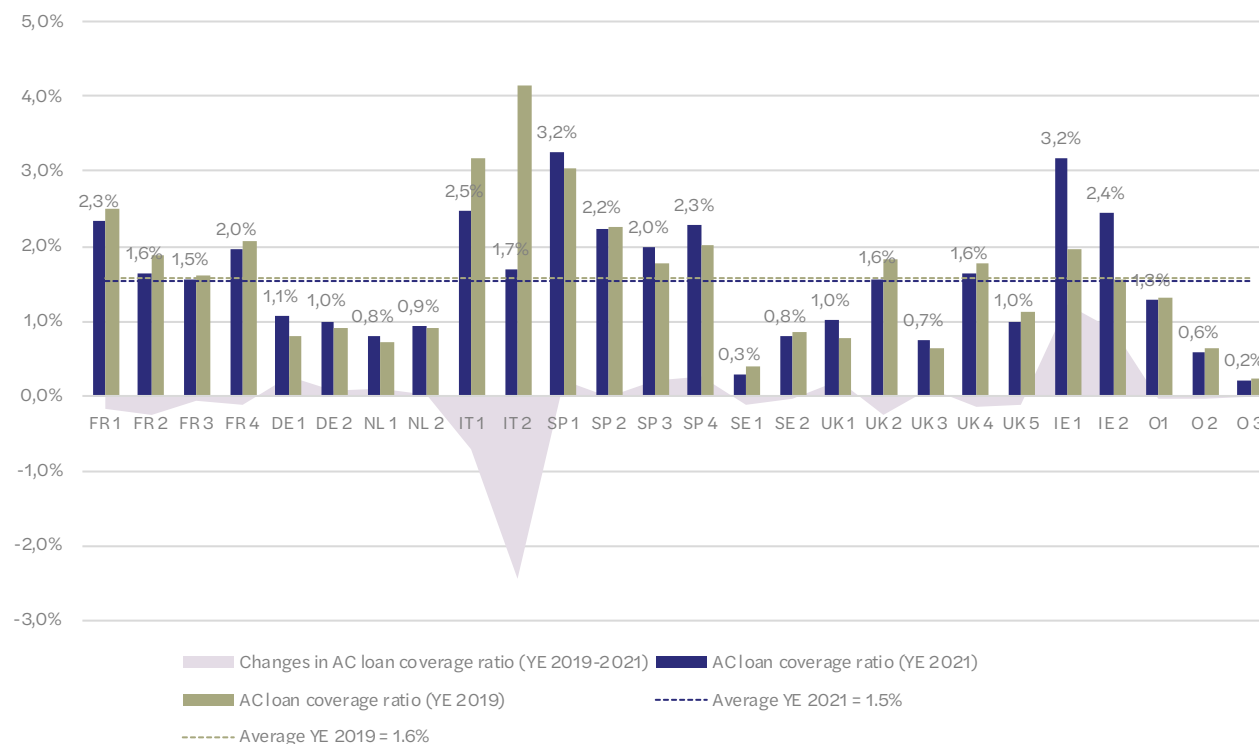
The same methodology described in Graph 6.1 has been used for computing the coverage ratio by stage. The limitations in relation to the data used to calculate these metrics are explained above.

3. Key findings

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


3.2.4 ECL Coverage ratios of AC loans (YE 2021 vs. YE 2019)

Graph 6.5: AC loans coverage ratio YE 2021 vs. YE 2019



Insights

- The average ECL coverage ratio of AC loans is 1.53% in YE 2021 (1.57% in YE 2019), meaning a relative decrease of the AC loans global coverage by 4 bp.
- The changes in the global AC loans coverage ratios are quite 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
 - Dutch and German banks went through a slight increase of their coverage ratios but remain around 1% under 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
 - On the other hand, Irish banks strongly increased their coverage ratios, which are comparable to the observed levels in Spanish banks in YE 2021
 - Spanish banks also increased their global coverage ratios (to a lesser extent) and remain above the average in YE 2021
 - UK banks have more diverse situations but have converged on each other since 2019: the lowest coverage ratios among these banks increased whereas the highest ratios decreased to get close to the average.

 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 don't 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.

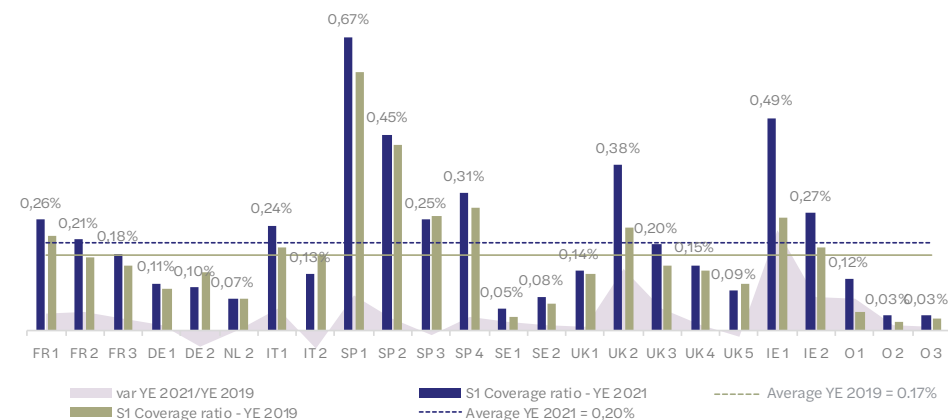
Often, more granular additional information (e.g. by geographical area or by type of loan) would be necessary to fully understand the differences between the results of each bank.

3. Key findings

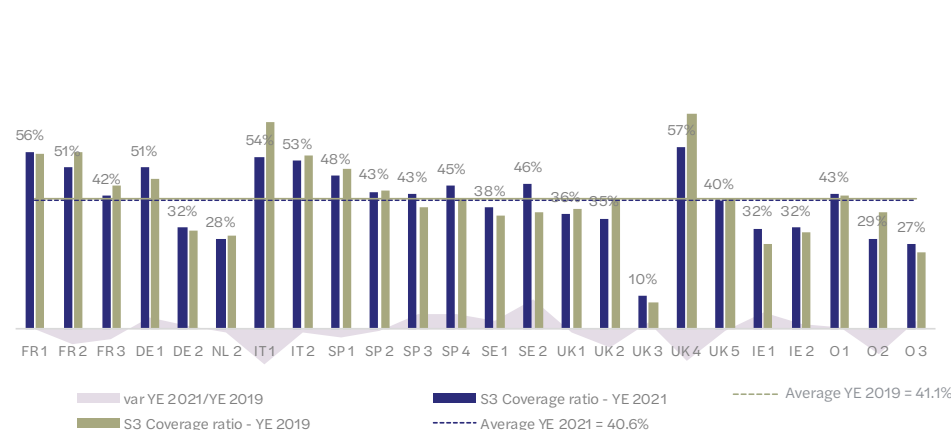
3.2. ECL allowances: changes in coverage ratios and allocation between stages

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

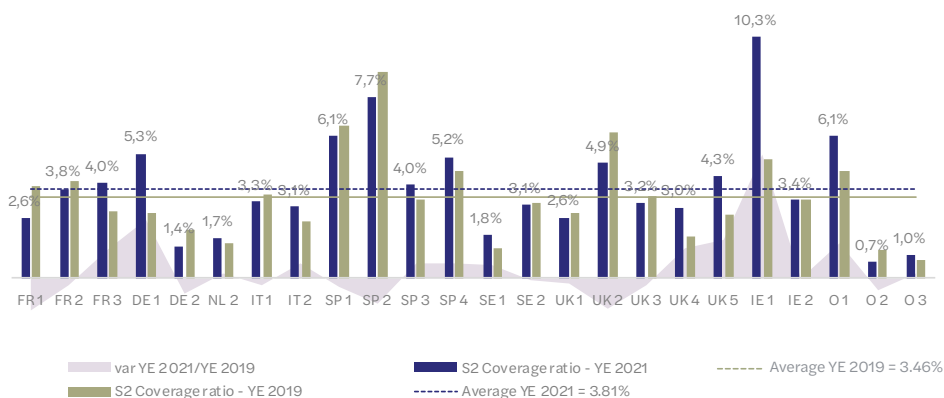
Graph 6.6: AC loans - Stage 1 coverage ratio - YE 2021 vs. YE 2019



Graph 6.8: AC loans - Stage 3 coverage ratio - YE 2021 vs. YE 2019



Graph 6.7: AC loans - Stage 2 coverage ratio - YE 2021 vs. YE 2019



Insights

- The situations are contrasting for each stage AC loan coverage ratio between YE 2019 and YE 2021:
 - Stage 1 and stage 2 AC loans coverage ratios increased by respectively 3 bp and 35 bp (respectively 18% and 10% in relative changes)
 - Stage 3 AC loans coverage ratio decreased by 50 bp (1% 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.

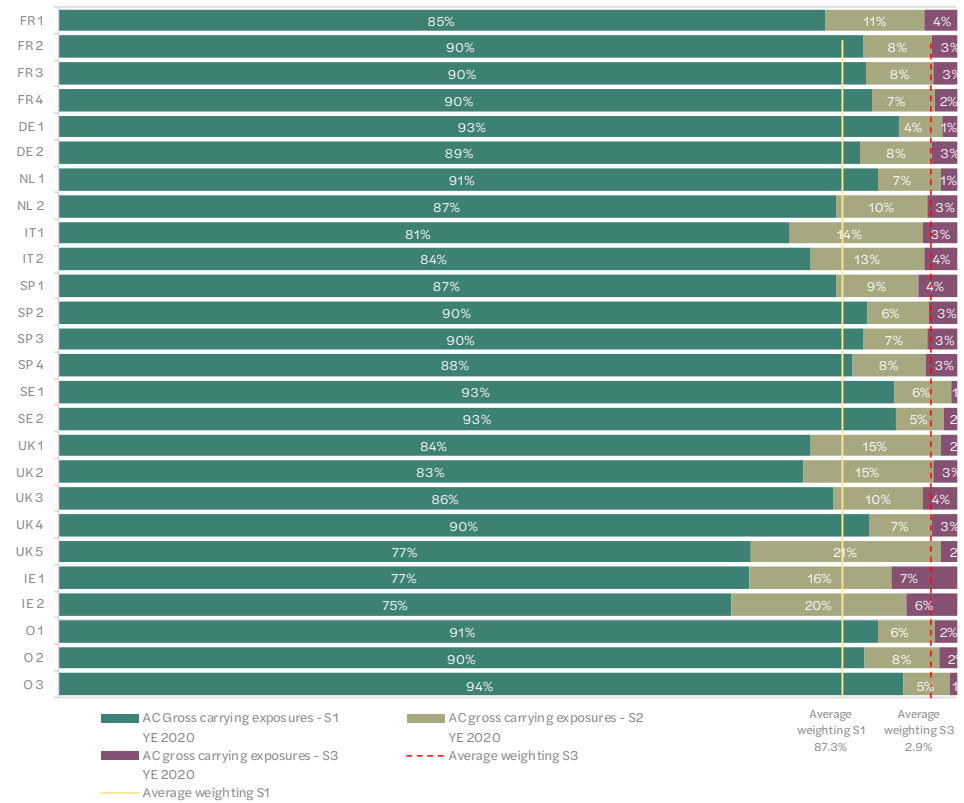
The same methodology described in Graph 6.1 has been used for computing the coverage ratio by stage. The limitations in relation to the data used to calculate these metrics are explained above.

3. Key findings

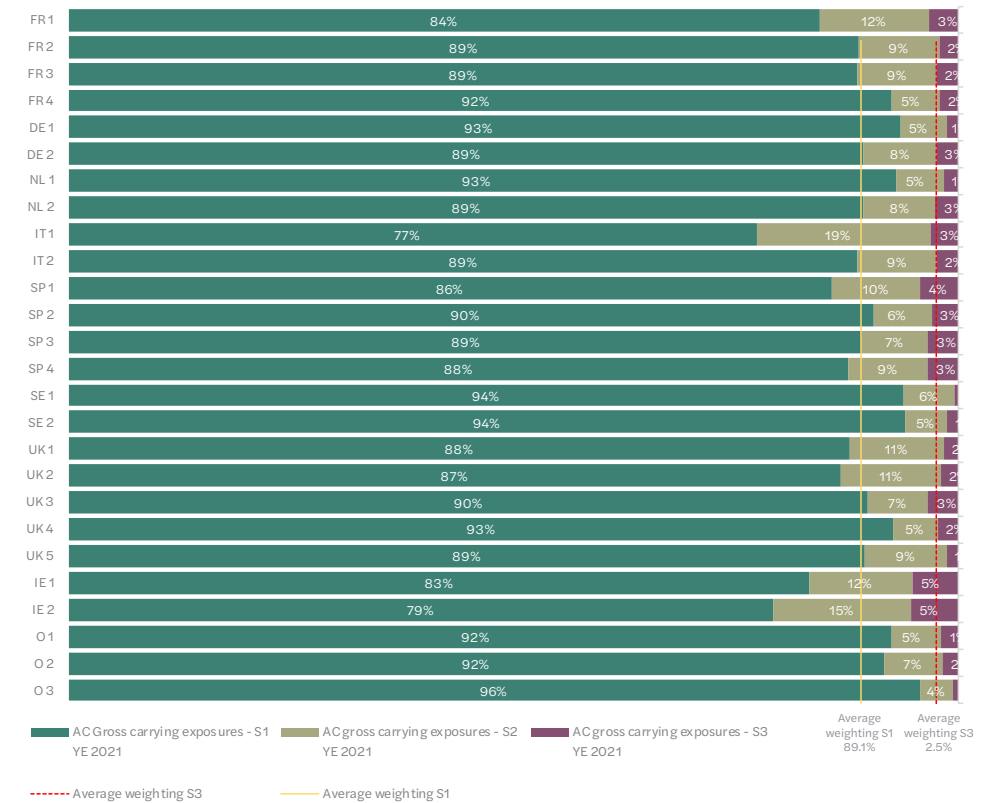
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.6 Breakdown of AC loans gross credit exposures by stage (YE 2021 vs. YE 2020)

Graph 7.1: allocation by stage of AC loans gross carrying exposures in YE 2020



Graph 7.2: allocation by stage of AC loans gross carrying exposures in YE 2021



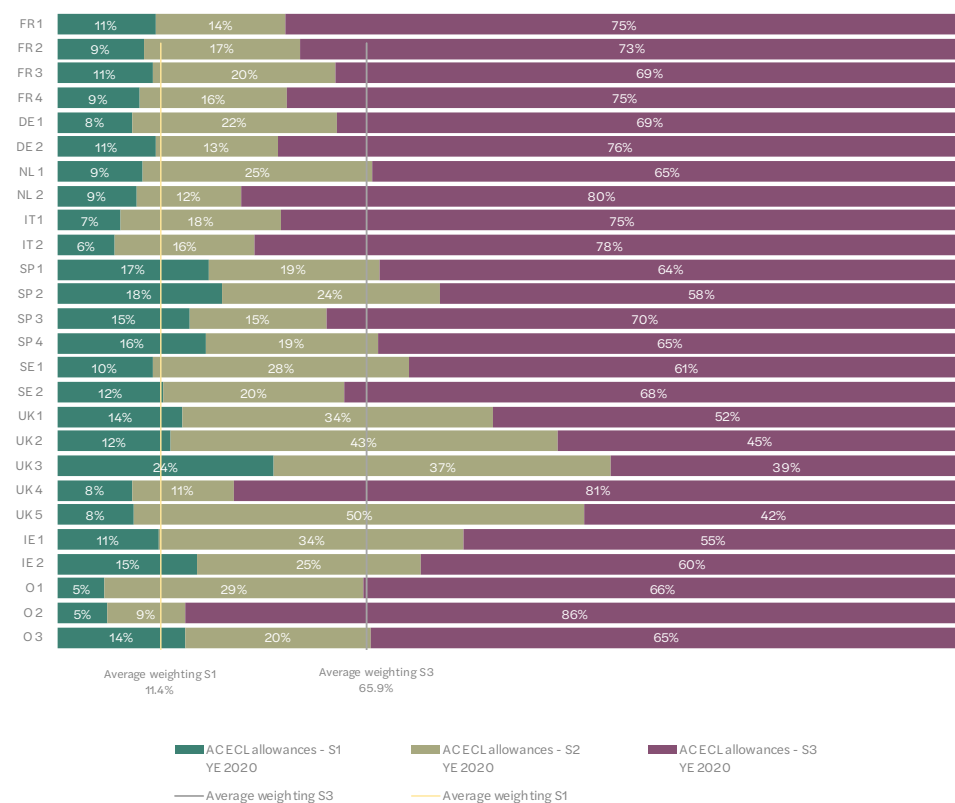
Note: Some banks include POCI assets in their stage 3 figures. In addition, several banks provided a breakdown by stage for most of their asset classes, but not necessarily all asset classes. The allocations by stage, therefore, are not directly comparable between banks. The comparability of Stage 3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

3. Key findings

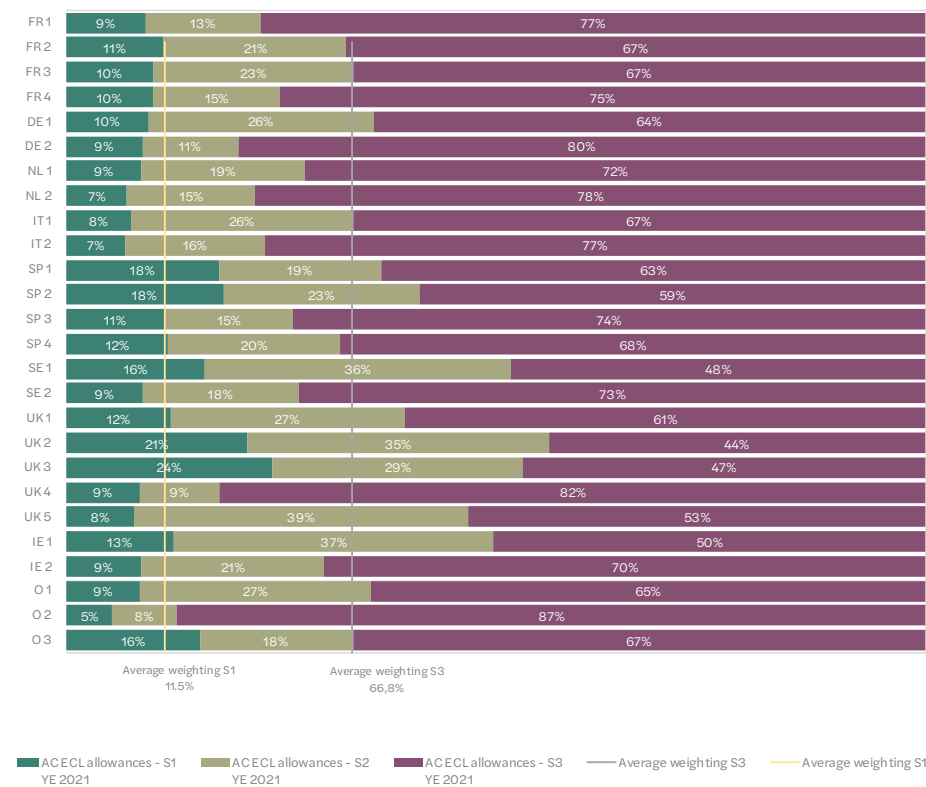
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.7 Breakdown of AC loans ECL allowances by stage (YE 2021 vs. YE 2020)

Graph 8.1: allocation by stage of AC loans - ECL allowances in YE 2020



Graph 8.2: allocation by stage of AC loans - ECL allowances in YE 2021



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.

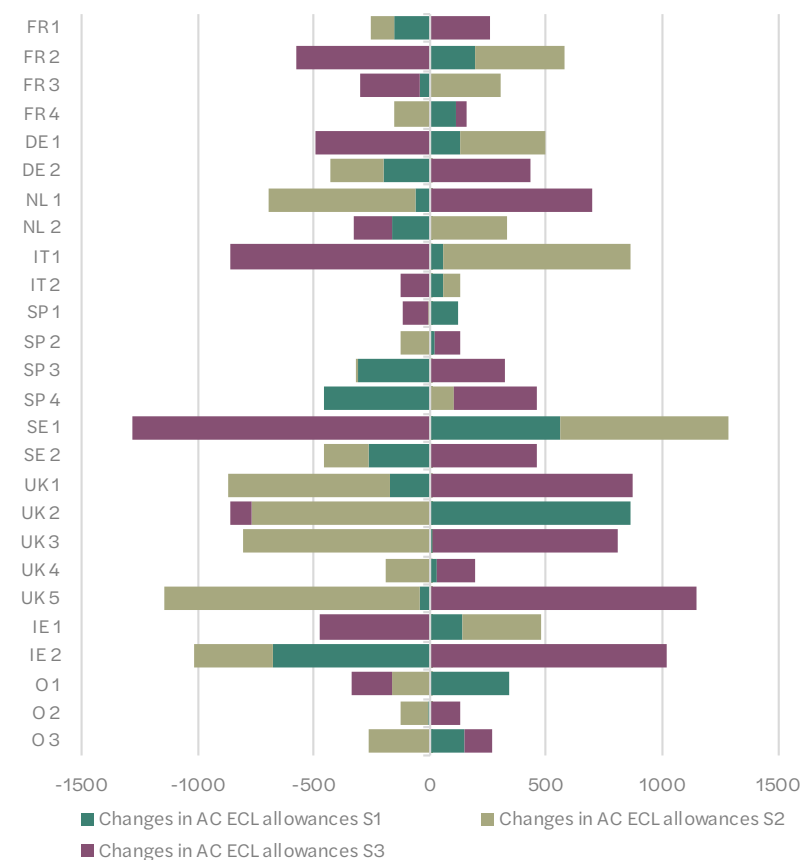
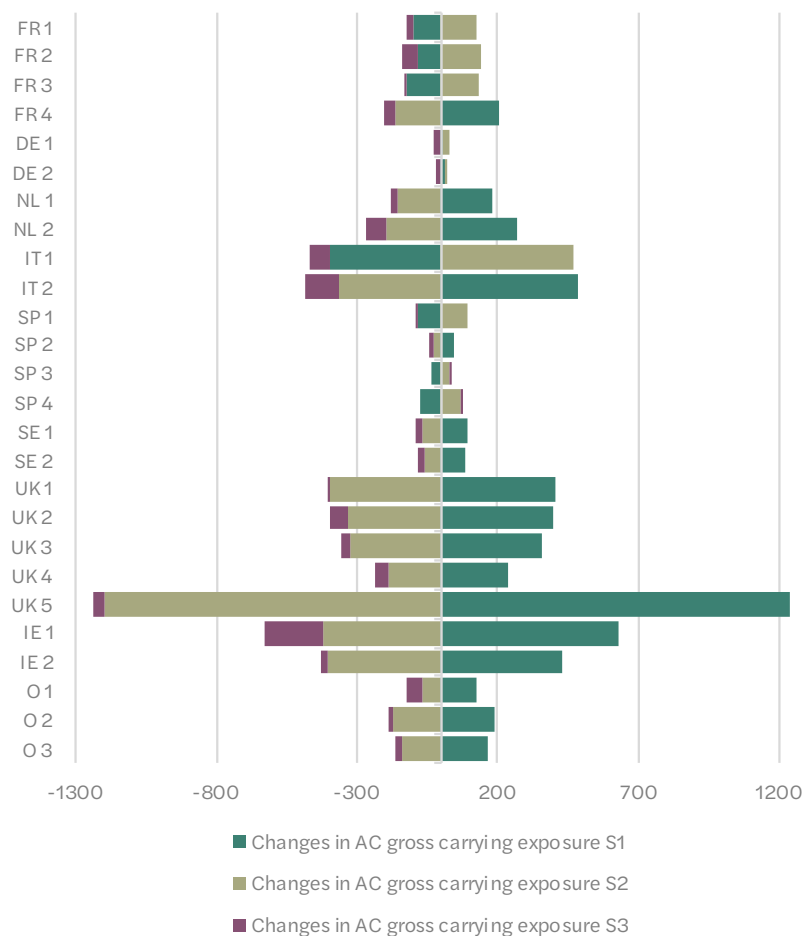
3. Key findings

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

3.2.8 Breakdown of changes in AC loans gross credit exposure and ECL allowance by stage (YE 2021 vs. YE 2020)

Graph 9.1: Changes in AC loans - GCE by stage YE 2021 vs YE 2020 (bps)

Graph 9.2: changes in ECL allowances by stage YE 2021 vs YE 2020 (bps)

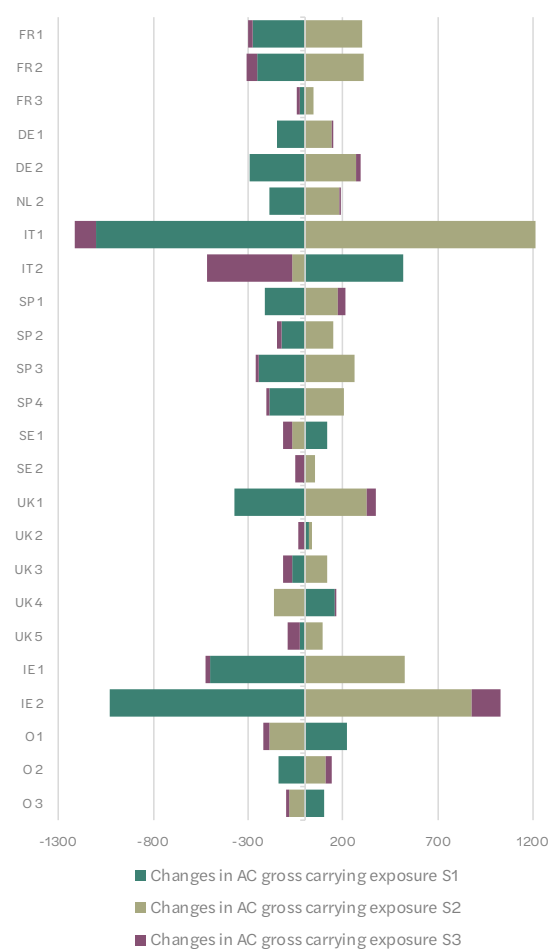


3. Key findings

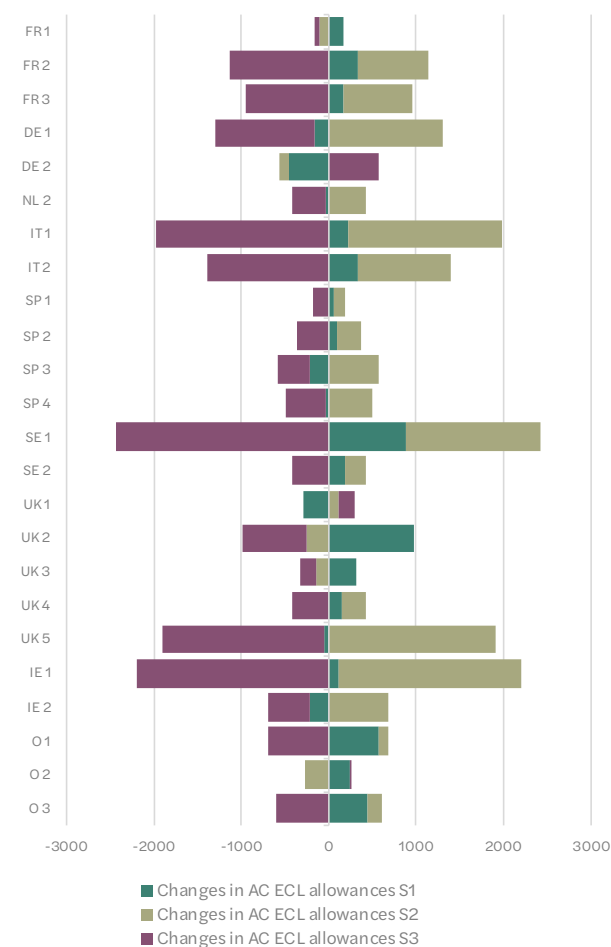
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.9 Breakdown of changes in AC loans gross credit exposure and ECL allowance by stage (YE 2021 vs. YE 2019)

Graph 9.3: Changes in AC loans - GCE by stage YE 2021 vs YE 2019 (bps)



Graph 9.4: changes in ECL allowances by stage YE 2021 vs YE 2019 (bps)



Insights

- The breakdown of changes in AC loans GCE and ECL allowance in YE 2021 compared to YE 2019 seems more consistent between the banks compared to the changes in YE 2021 vs YE 2020
- A global reallocation of GCE from S1 to S2 has been realised
- The relative weighting of S3 ECL allowances decreased to the benefit of S2 ECL allowances and to a lesser extent S1 ECL allowances.

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

23


banks disclosed having overlays or post-model adjustments

22

banks disclosed the amounts of their overlays or post-model adjustments in YE 2021 and YE 2020

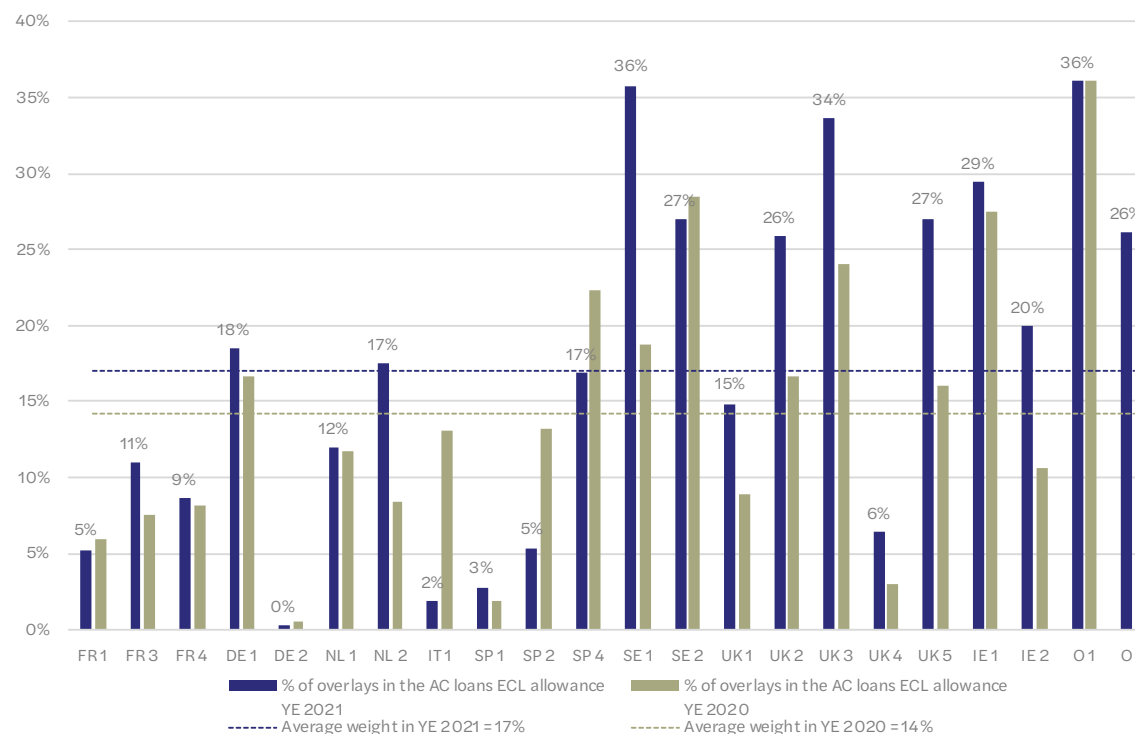
100%

of 22 banks have a cumulative overlay that is an ECL charge

 Note: 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 2021 is called the YE 2021 cumulative overlays.

Graph 10.1: weight of cumulative overlays in AC loans ECL allowance
YE 2021 vs YE 2020



Insights

- The average weight of cumulated overlays in AC loans ECL allowances stands at 17% on average in YE 2021 (14% in YE 2020).
- The weightings in YE 2021 range from 0% to 36% and do not highlight particular “geographical” trends.

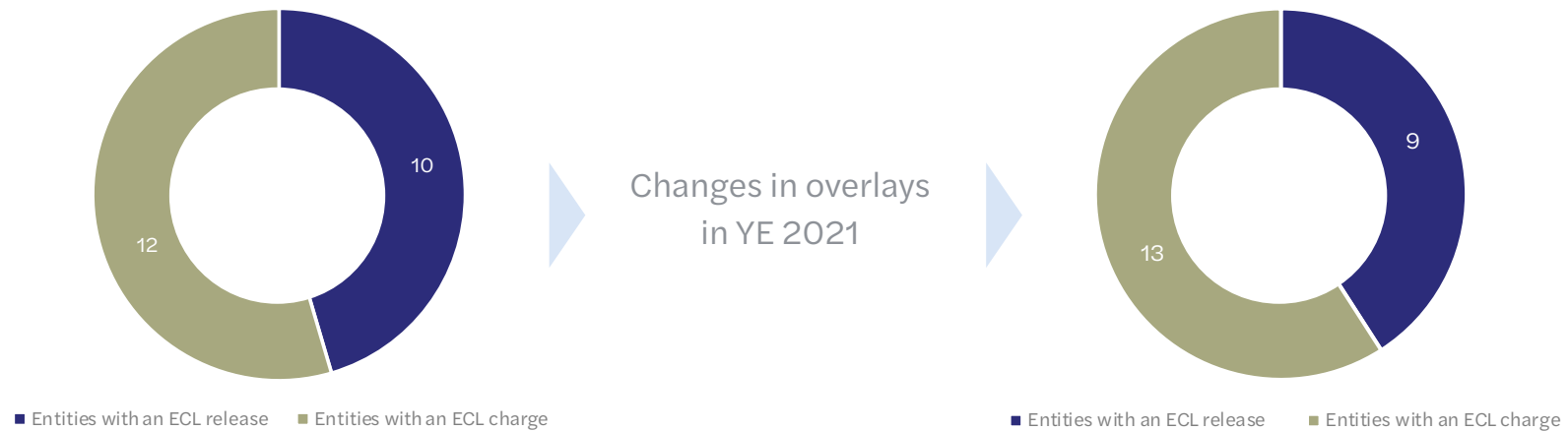
3. Key findings

3.3. Post-model adjustments/overlays

3.3.2 Changes in the ECL net impact due to post-model adjustments/overlays

Graph 10.2: ECL charge/profit before change in overlays

Graph 10.3: ECL charge/profit after overlays



Insights

- Only 1 bank out of 22 experienced a change in the ECL net impact (moving from ECL profit to ECL expense) caused by overlay adjustments (SE 1).

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.). This graph deals with each bank’s cumulative overlays, defined as the sum of all its overlays.

3. Key findings

3.3. Post-model adjustments/overlays

3.3.3 Cumulative overlay changes

48%

Is the average weight of the change in overlays in ECL profit/loss before overlays (in absolute value)

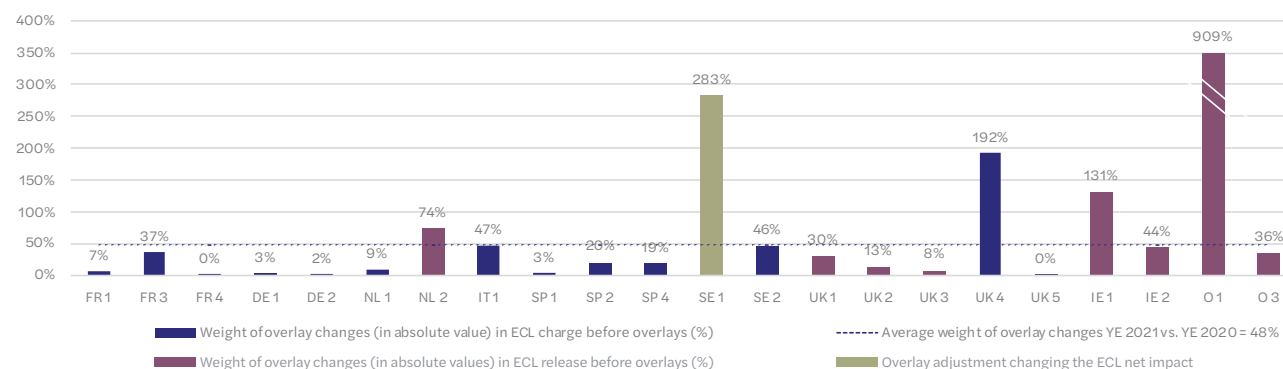
Insights

- A decrease in overlays (negative amount) in graph 10.5 means a “profit” impact in YE 2021.
- An increase in overlays (positive amount) in graph 10.5 means a “loss” impact in YE 2021.
- A positive change in cumulative overlay in graph 10.5 coupled with a pink histogram means that the ECL release in YE 2021 would have been higher without the change in overlay to compensate the release (e.g. NL 2).
- The O 1 weight in graph 10.4 is mainly explained by a very low level of ECL charges in YE 2021. This value has been excluded for the purpose of calculating the average weight of overlay changes of 48%.

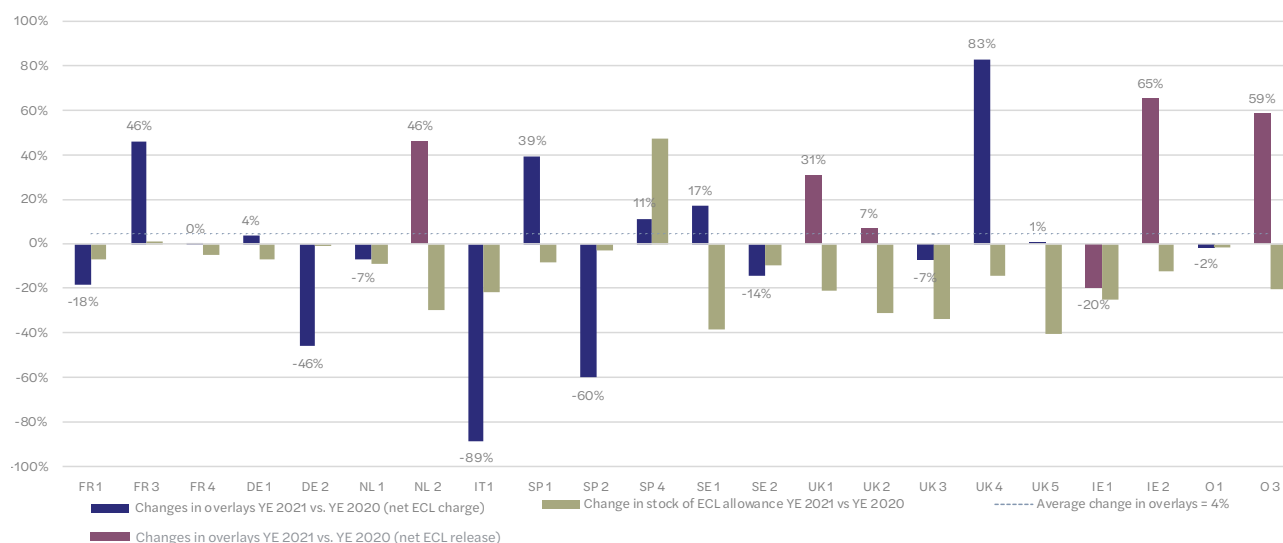
 Note: A post-model adjustment is an incremental ECL that increases (or decreases) the ECL resulting from the bank’s IFRS 9 impairment models.

The weight of overlays in ECL charge/profit before overlays (%) at YE 2021 has been calculated by dividing the changes in overlays in absolute value by the ECL charge/profit in P&L before overlays.

Graph 10.4: Weight of cumulative overlay change (absolute value) in ECL charge/release before overlays (%) YE 2021



Graph 10.5: change in cumulative overlays YE 2021 vs. YE 2020

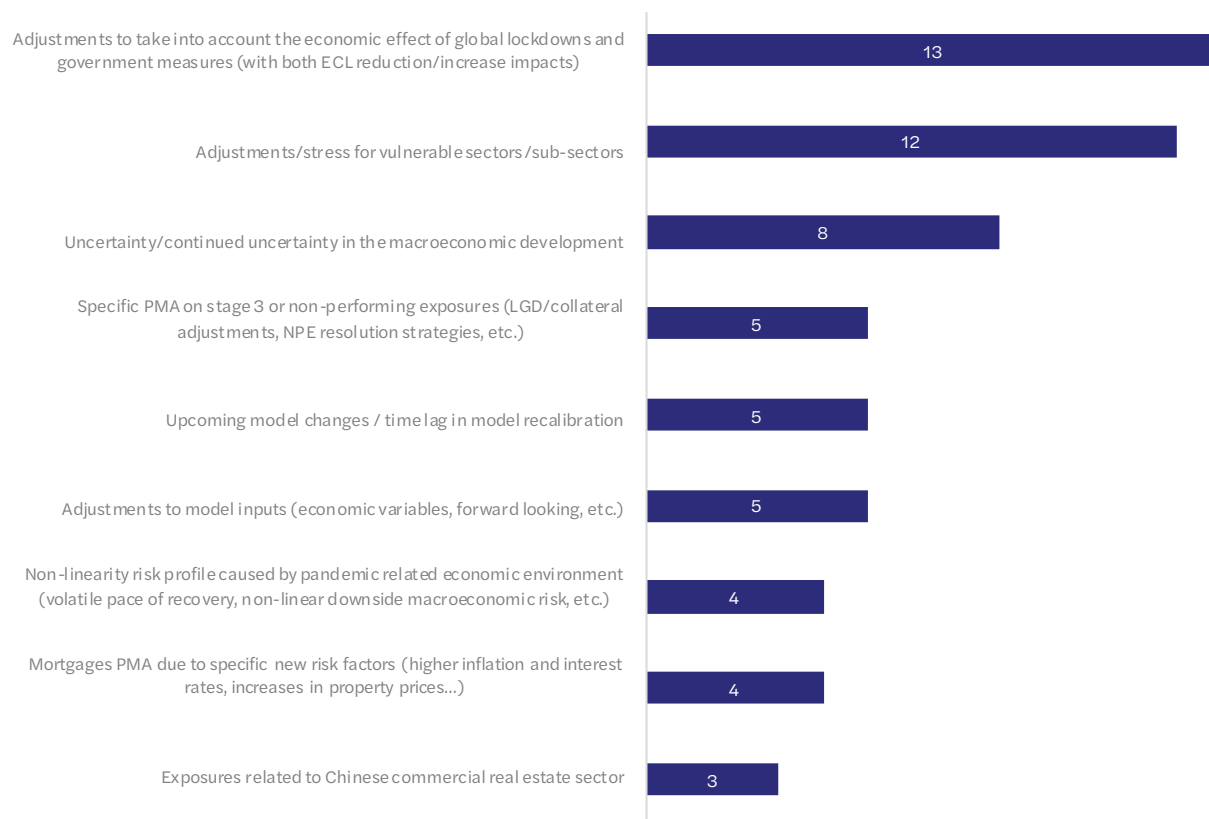



3. Key findings

3.3. Post-model adjustments/overlays

3.3.4 Most frequent PMA/overlays underlyings

Graph 10.6: most frequent underlyings



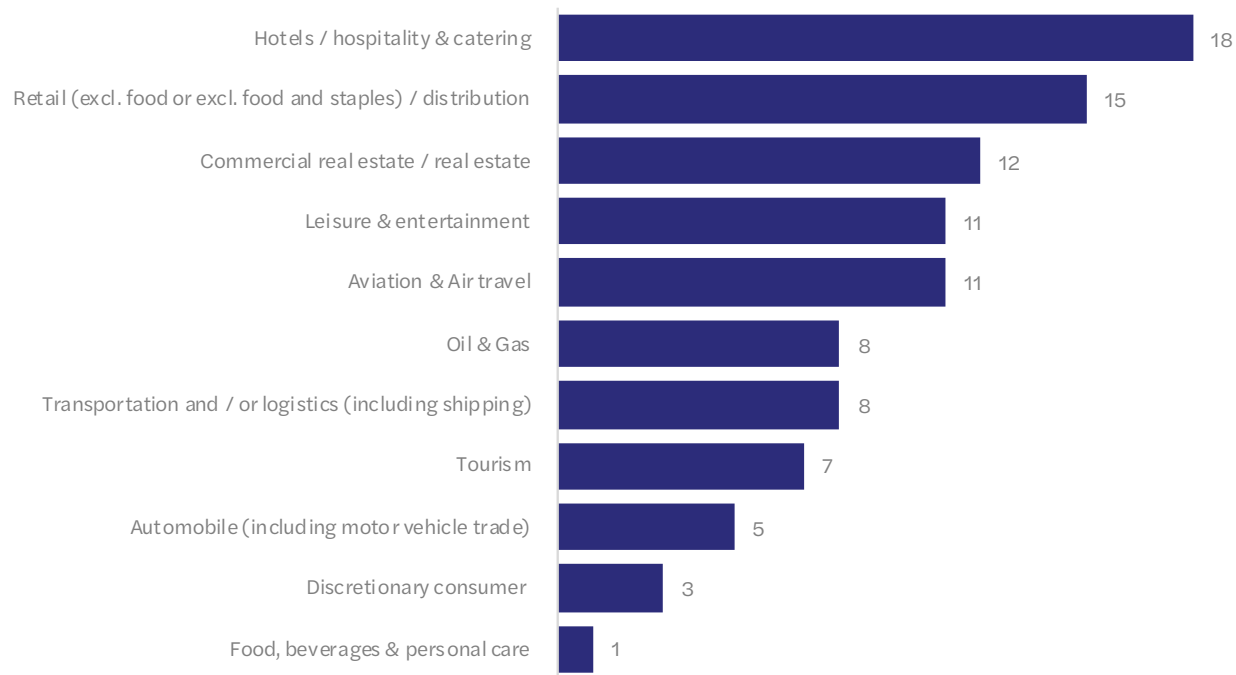
 Note: A post-model adjustment is an incremental ECL that increases (or decreases) the ECL resulting from the bank's IFRS 9 impairment models. Banks use different designations for such adjustment (management overlay, top-level adjustment, management adjustment, additional adjustment, overlay provisions, etc.) Several banks disclosed having several post-model adjustments. There could be some overlaps between the different underlyings of overlays/post-model adjustments. Sometimes 2 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


3.3.5 Sectors disclosed as vulnerable

Graph 11: Quoted vulnerable sectors



Insights

- 6 banks did not provide explicit information on the sectors that they consider as vulnerable.
- 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 (Covid-19 crisis or other issues).

3. Key findings

3.4. Forward looking information

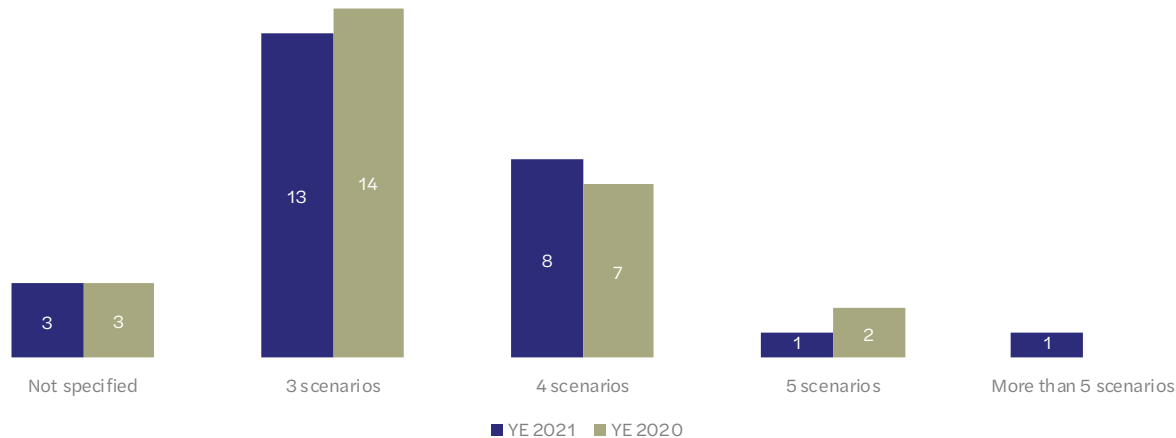


3. Key findings

3.4. Forward looking information

3.4.1 An overview of macro-economic scenarios


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




20
 banks disclosed the weighting of each scenario in YE 2021 and YE 2020

Insights

- Almost 100% of the sample gave quantitative information, such as the weighting identified for each scenario as well as underlying parameters.
- DE 1, SP 2 and O 2 did not specify the number of scenarios that are used for ECL forward looking purposes.
- 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.

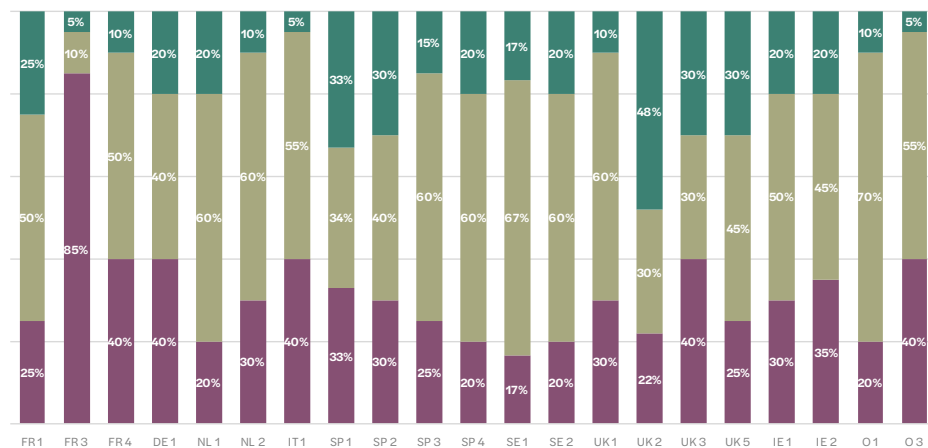
 Note: Scenarios designations have been classified in 3 categories following the disclosed: the downside scenario (or severe), the baseline scenario (or central) and the upside scenario (or optimistic). When the number of scenarios was above 3, comprised of 2 downside scenarios for instance, the weightings of the 2 downside scenarios were added.

3. Key findings

3.4. Forward looking information

3.4.2 Weightings of macro-economic scenarios

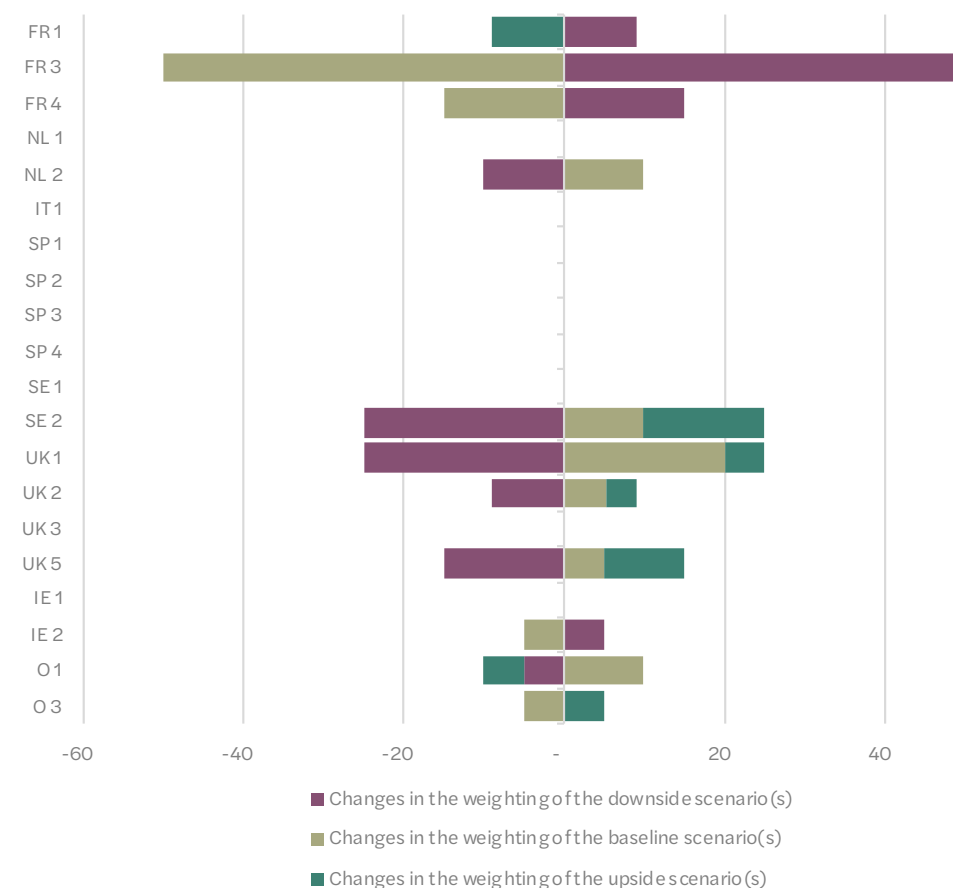
Graph 12.2: Weightings of the scenarios in YE 2021



Insights

- The sample is quite heterogeneous regarding the weightings of each scenario (upside, baseline and downside) in YE 2021 – even within each country.
- Almost half of the sample (12 banks at YE 2021 vs 9 banks in YE 2020) weighted their upside scenario(s) at or above 20%.
- On the other hand, 20 banks weighted their downside scenario(s) at or above 20% (17 banks in YE 2020).
- A high weighting of the upside scenario(s) does not imply a low AC loans coverage ratio (YE 2021).
- 11 out of 20 banks changed the weightings of their scenarios between YE 2020 and YE 2021. An empty line in graph 12.3 means that the weightings are the same as in YE 2020.

Graph 12.3: changes in the weightings of the scenarios YE 2021 vs YE 2020

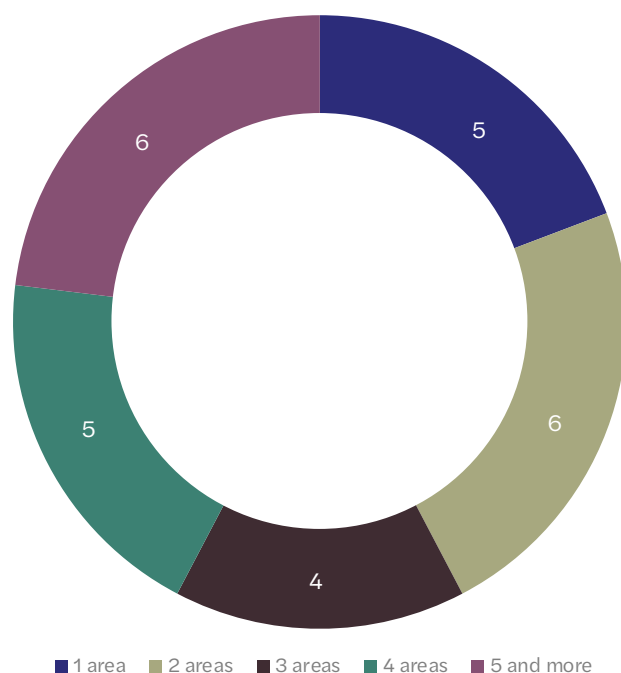


3. Key findings

3.4. Forward looking information


3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 12.4: Macroeconomic scenario inputs: number of geographical areas disclosed



Insights

- Almost 100% of the sample disclosed detailed macroeconomic input(s) for their native country (e.g. France for FR 1 to FR 4). Only UK 4 did not disclose detailed inputs regarding the UK macro-economic baseline scenario.
- Most banks focused on their principal economic market(s) (in connection with the geographic concentration of their credit exposures), when disclosing macroeconomic input(s).
- Several banks disclosed their assumptions for larger areas than single countries or than their own domestic markets.
- 1 bank detailed up to 8 different geographic areas for the purpose of their baseline scenario(s).
- The most quoted areas that have been detailed are the following:
 - United States (11 banks)
 - United Kingdom (8 banks)
 - Eurozone (8 banks)
- We compare in the 3 following slides the assumptions used by the banks concerned for United Kingdom and Eurozone in terms of GDP growth rate and unemployment rates (UK only), which are the most common variables disclosed among the 26 banks in the sample.

 Note: We have reported here the number of geographical areas for which detailed macro-economic inputs were disclosed. We have considered this criterion was met when at least one macro-economic variable (GDP, unemployment rate, etc.) was disclosed for the baseline/central scenario assumptions for the upcoming years.

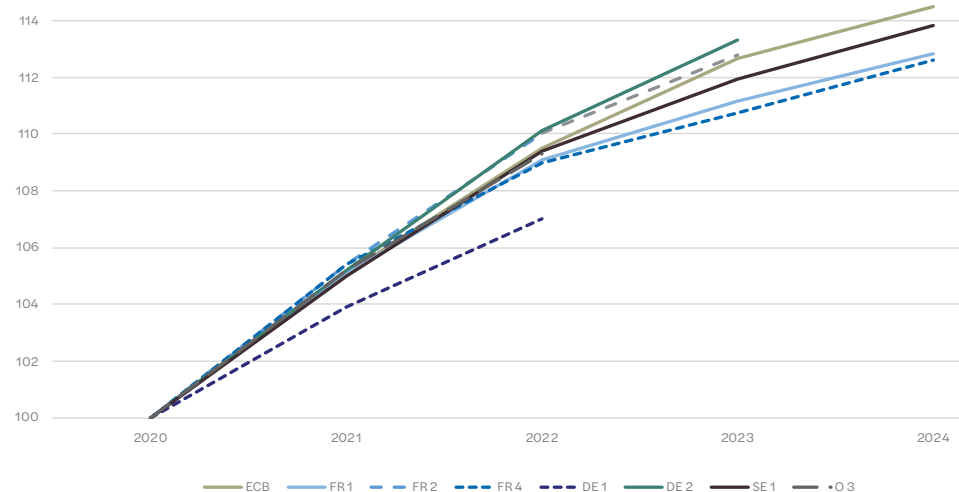
A geographical area can be a country or several countries grouped together (Eurozone, world, Nordic economies, emerging countries, etc.).

3. Key findings

3.4. Forward looking information

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 12.5: Eurozone GDP growth assumptions YE 2021



Insights

- The level of detail is quite heterogeneous among this sample, as some banks will not present their GDP growth assumptions until 2024, hindering full comparability between the banks in this sample.
- IT 2 uses Eurozone macro-economic variables in their forward looking ECL but has not disclosed detailed macro-economic assumptions in terms of Eurozone GDP growth. It is therefore presented neither in the graph nor the chart.
- The banks are globally more conservative with regards to the ECB projections.
- The range of the assumptions is quite extensive:
 - For 2022, the range goes from 3.0% (DE 1) to 4.7% (DE 2)
 - For 2023, the range goes from 1.6% (FR 4) to 3.9% (O 3).

Baseline scenario: Eurozone GDP growth				
	2021	2022	2023	2024
ECB	5,1%	4,2%	2,9%	1,6%
FR 1	5,1%	3,8%	1,9%	1,5%
FR 2	5,4%	4,4%	2,5%	
FR 4	5,4%	3,4%	1,6%	1,7%
DE 1	3,9%	3,0%		
DE 2	5,2%	4,7%	2,9%	
SE 1	5,0%	4,2%	2,3%	1,7%
O 3	5,2%	3,9%	7,5%	

 Note: 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 2021 (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 = 2020). O 3 bank is an exception as the growth rate disclosed for 2023 and 2024 is a 3-year cumulative growth rate for the period 2022-2024 (including 3.9% expected for 2022).

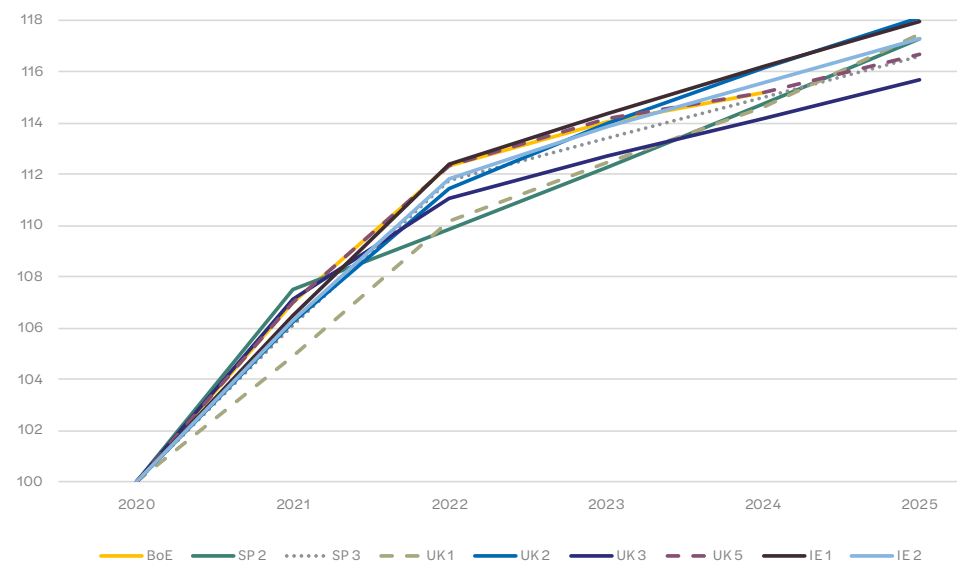
- Bank assumption more optimistic than the ECB projections (i.e. higher GDP growth rate)
- Bank assumption less optimistic than the ECB projections (i.e. lower GDP growth rate)

3. Key findings

3.4. Forward looking information

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 12.6: UK GDP growth assumptions YE 2021



Baseline scenario: UK GDP growth					
	2021	2022	2023	2024	2025
Bank of England	7,0%	5,0%	1,5%	1,0%	
SP 2	7,5%	2,2%	2,2%	2,2%	2,2%
SP 3	6,1%	5,3%	1,5%	1,4%	1,4%
UK 1	4,9%	5,0%	2,1%	1,9%	2,5%
UK 2	6,2%	4,9%	2,3%	1,9%	1,7%
UK 3	7,1%	3,7%	1,5%	1,3%	1,3%
UK 5	7,0%	5,0%	1,6%	0,9%	1,3%
IE 1	6,5%	5,5%	1,8%	1,6%	1,5%
IE 2	6,3%	5,2%	1,8%	1,5%	1,5%

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.
- 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 banks (especially a slowdown in economic growth after 2022).
- A majority of the banks in the sample are more conservative than the BoE in 2021 and 2022, whereas almost all of them are more optimistic for 2023 and 2024.

Note: 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 2021, Table 1.B (source: <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/november/monetary-policy-report-november-2021.pdf>) The chart presents the annual GDP growth rate for each year, whereas the graph presents the cumulative GDP growth rate (index base 100 = 2020).

SP 2 uses a global average GDP growth rate for the period 2022-2024.

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 have used the 2020 annual report figures for 2021 GDP growth for SP 3, UK 1 and IE 2, as the updated information was not available in the 2021 annual reports

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

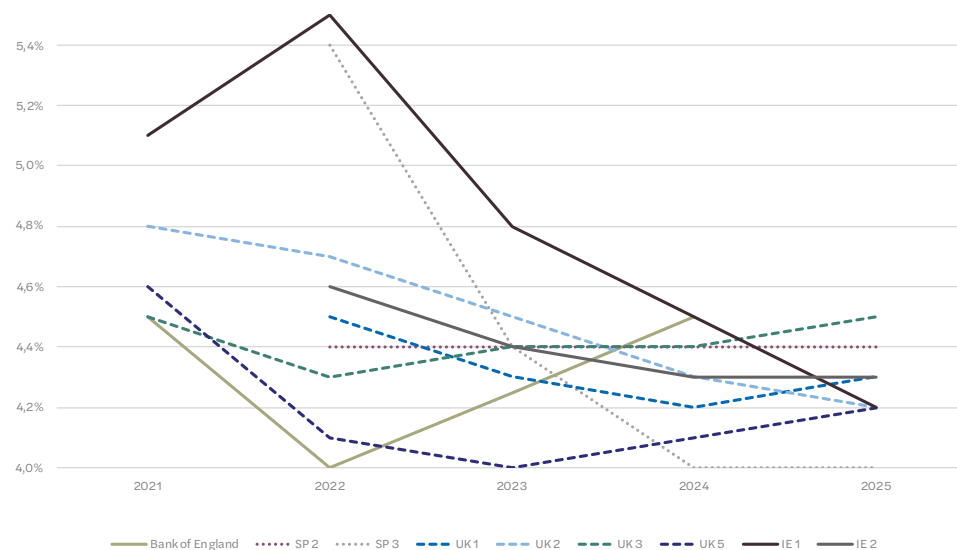
■ Bank assumption less optimistic than the BoE projections (i.e. lower GDP growth rate)

3. Key findings

3.4. Forward looking information

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 12.7: UK unemployment rate assumptions YE 2021



Insights

- All banks are more optimistic than the BoE in 2024 whereas almost all of them are more conservative between 2021 and 2023.
- Although the expected change in the unemployment rate over time is very different between the banks in the sample, the gap between their respective assumptions tightens and is limited to 0.5% in 2024 (compared to 1.4% in 2022).

Note: 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 2021, Table 1.B (source: <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/november/monetary-policy-report-november-2021.pdf>) The chart and the graph present the annual unemployment rate for each year.

SP 2 uses a global average unemployment rate for the period 2022-2024.

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

Baseline scenario: UK unemployment rate					
	2021	2022	2023	2024	2025
Bank of England	4,5%	4,0%	4,3%	4,5%	
SP 2		4,4%	4,4%	4,4%	4,4%
SP 3		5,4%	4,4%	4,0%	4,0%
UK 1		4,5%	4,3%	4,2%	4,3%
UK 2	4,8%	4,7%	4,5%	4,3%	4,2%
UK 3	4,5%	4,3%	4,4%	4,4%	4,5%
UK 5	4,6%	4,1%	4,0%	4,1%	4,2%
IE 1	5,1%	5,5%	4,8%	4,5%	4,2%
IE 2		4,6%	4,4%	4,3%	4,3%

■ Bank assumption more optimistic than the BoE projections (i.e. lower unemployment rate)

■ Bank assumption less optimistic than the BoE projections (i.e. higher unemployment rate)


3. Key findings

3.4. Forward looking information

3.4.4 Macro-economic scenarios: sensitivity analysis

Insights

- 100% of the sample disclosed a sensitivity analysis (or similar).
- However, it has been difficult to compare the analysis disclosed because:
 - In some cases, the sensitivity analysis was summarised in just a few sentences, whereas in other cases, a detailed analysis over several pages was provided (with an additional split between geographical areas and/or portfolios).
 - Methodologies often varied: most banks either applied a shock one or several variables (GDP, unemployment rate, etc.) (12 banks), or changed the weighting of the downside and/or other scenario(s) (19 banks) but did not detail the outcome in terms of ECL allowance or ECL charge so that a clear reconciliation can be made with the amounts of ECL disclosed in the financial statements.
 - The scope of the sensitivity analysis may differ from the scope of the ECL (for instance: ‘only stage 1 and 2’ or ‘only customer loans’).
- The information given can be a percentage of either the ECL allowance or the ECL charge, or only a part of it (e.g. percentage of the forward looking ECL related to the baseline scenario).

 Note: We define sensitivity analysis as a variation in the ECL linked to a change in the calculation model used for the ECL allowance. This change could concern one or several variables in either one scenario or in the weightings of one or several scenarios.

We acknowledge that this is a very broad definition.

3. Key findings
3.5. Other topics

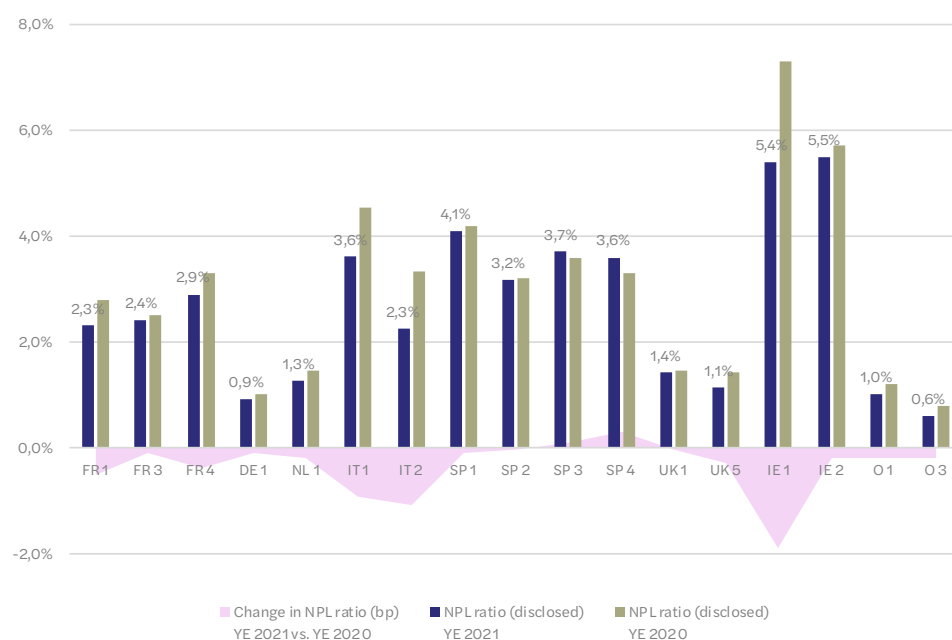


3. Key findings

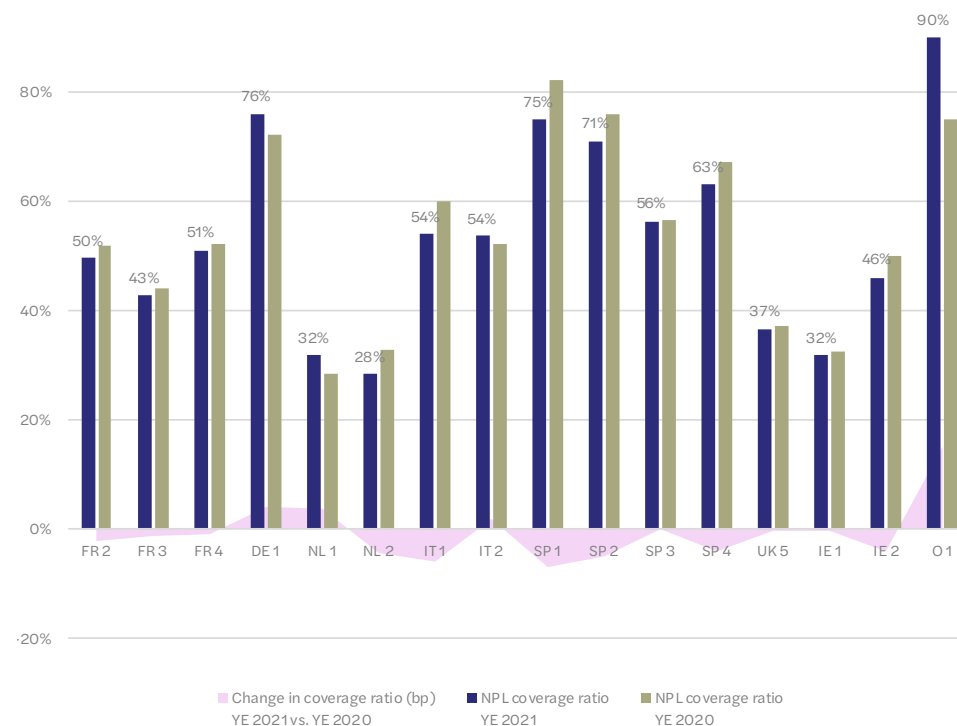
3.5. Other topics

3.5.1 Non-Performing loans (NPL)

Graph 13.1: Communicated NPL ratio
YE 2021 vs YE 2020



Graph 13.2: Communicated NPL coverage ratio
YE 2021 vs YE 2020



Insights

- The disclosures of NPL ratio and coverage ratio was not always consistent from one bank to another (e.g. FR 1 presented an NPL ratio but no NPL coverage ratio whereas FR 2 presented an NPL coverage ratio but no NPL ratio)
- The NPL ratio disclosed by the banks decreased for almost all banks that disclosed this ratio, especially for Italian banks and IE 1.



Note: The NPL ratios disclosed by the banks are difficult to compare to each other because of the different definitions applied to this ratio (when disclosed).

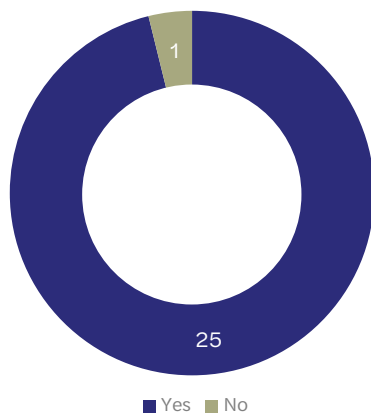
Some banks include in the denominator all the IFRS 9 impairment eligible assets (off-balance sheet items, FV-OCI loans, etc.) whereas other banks only take loans to customers into account. The variety of the definitions applied prevents any comparison even between homogeneous groups in the sample. The graph presented here should be used to analyse the evolution of the NPL ratio over time or in a given bank rather than to try to compare banks to each other as the basis of calculation can be very different.

3. Key findings

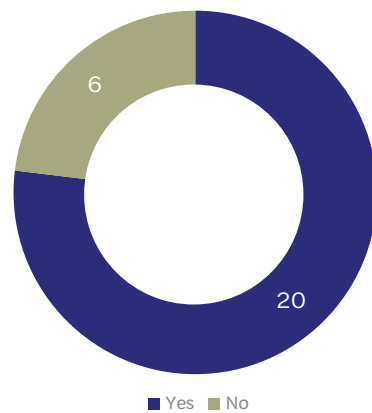
3.5. Other topics

3.5.2 Significant increase in credit risk (SICR) criteria analysis

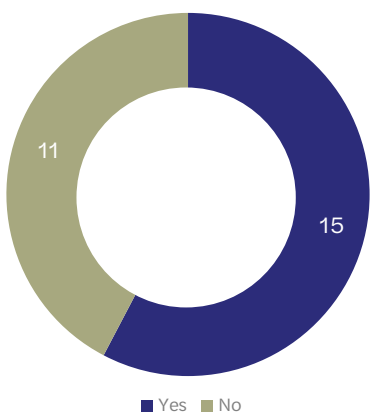
Graph 14.1: Banks disclosing SICR qualitative criteria



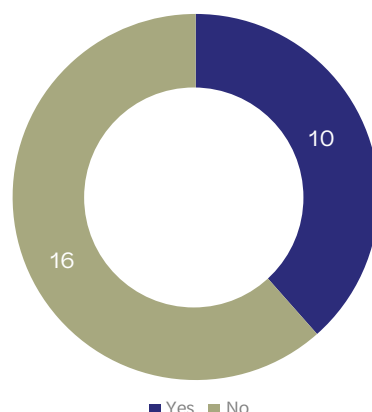
Graph 14.2: Banks disclosing detailed quantitative criteria (numbers)



Graph 14.3: Banks disclosing a differentiated SICR approach by category of exposures (.e.g retail/non retail)



Graph 14.4: Absolute thresholds used in combination with the relative SICR approach (floor and/or backstop)



Insights

- 100% of the banks declared using quantitative criteria on the basis of either the Probability of Default (PD) or an internal grade/rating
 - 77% of them disclosed thresholds (numbers) for their SICR appreciation for at least one type of portfolio (e.g. number of bp or percentage of variation of the PD since initial recognition).
- 96% of the banks presented at least one example of qualitative SICR criteria
 - Qualitative criteria mainly relied on forbearance (17 banks) and watchlists (14 banks).
- 58% of the banks explicitly disclosed having a differentiated SICR approach depending on the category of exposure (e.g. retail, mortgage, etc.)
 - One of these 15 banks had an approach differentiated by country rather than by economic type of exposure.
- All banks applied a relative SICR approach, and 38% of them completed this approach with at least one absolute threshold (floor or cap).

Note: We have considered that absolute thresholds were used when a bank disclosed an absolute level of PD/ internal grade, without any consideration given to the original PD, and for which:

- Either the related exposures remain in S1 if this threshold is not reached (e.g. internal grade lower than 4) – floor
- Or the exposures automatically go to S2 if the threshold is reached (e.g. the PD is equal to or higher than 10%) – cap.

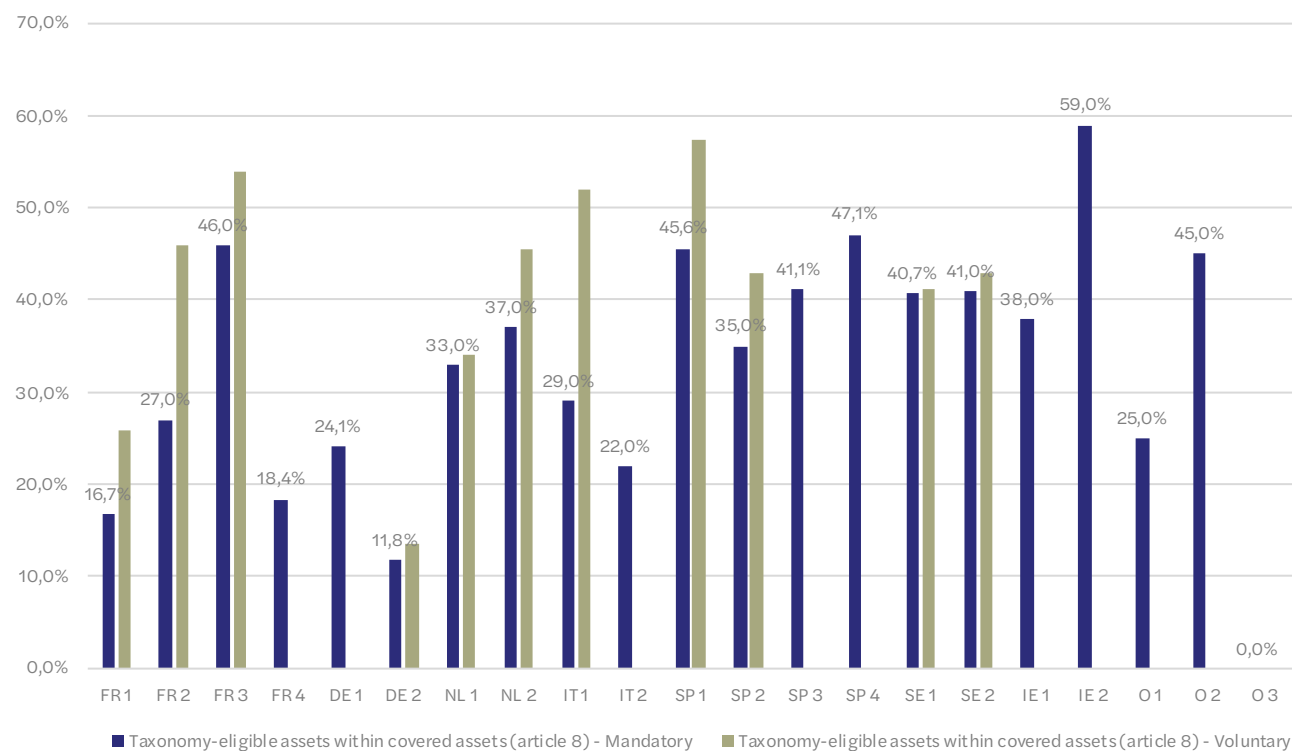
Criteria such as “a doubling of original PD” have not been used for the definition of “absolute thresholds” because such thresholds are relative, depending on the change in the PD of a specific exposure.

3. Key findings

3.5. Other topics

3.5.3 Green finance disclosures

Graph 15: Green finance - Taxonomy-eligible assets ratio



Insights/Other topics

- UK banks are not present because the EU Taxonomy Regulation does not apply to UK entities.
- More granularity in the portfolio disclosures would be needed to explain the differences between the banks.
- 52% of the banks elected to disclose a voluntary taxonomy-eligible asset ratio in addition to the mandatory one.
- One bank (O 2) already disclosed an “aligned” Green Asset Ratio (mandatory in 2024), amounting to 6-7%.
- Other accounting-related sustainable finance issues include ESG features and their impact on the classification of financial instruments:
 - 3 banks disclosed how ESG features impacted the SPPI test
 - No breach of the SPPI has been reported because the cash flows related to these features are “de minimis”
- Not much accounting information related to sustainability was reconciled with the annual financial statements.
- Banks mainly disclosed prospective qualitative information about future targets in terms of green bond issuance or the granting of green/sustainable loans.

3. Key findings

3.5. Other topics

3.5.4 War in Ukraine: first review


46%

of 26 banks disclosed entity-specific information about the potential impact of the War in Ukraine through their 2021 annual report and/or a dedicated press release.

5

banks disclosed detailed information about their subsidiaries in Russia and/or Ukraine.

Detailed information reported on the subsidiaries includes mainly total assets, loans, Risk Weighted Assets (RWA), share in the Group net banking income or pre-tax profit, or share in the consolidated equity of the group.

 Note: We have considered all information disclosed in the 2021 annual reports and any specific communication made before 1 April 2022.

2

banks disclosed total Russian and Ukrainian net exposure* equal to or higher than 1% (FR 4 and NL 1).

*Exposure at default on and off-balance sheet or % of total loan book

2

banks disclosed the impact on the CET1 ratio in case of an extreme scenario where the group would be stripped of property rights to its banking assets in Russia or would lose its maximum exposure.

FR 4 would undergo a maximum impact of **-50 bp** on its CET1 ratio.

IT 1 would undergo a maximum impact of **-200 bp** on its CET1 ratio.

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