Financial reporting of European banks in the context of Covid-19

A focus on Expected Credit Losses

June 2021 update

mazars

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1.1 Executive summary

Most noticeable events in H1 2021 are:

- **An average decrease of the ECL charge in P&L by 86%. UK and Irish banks have experienced an ECL profit.**
- **Most of the banks that experienced the highest increase in ECL charges last year are now among those that have a net ECL profit in H1 2021.**
- **An average amortised cost loan coverage ratio that has slightly decreased mainly due to a lower coverage ratio for stage 3 instruments.**
- **An increasing weight of post-model adjustments/overlays in ECL charge/profit compared to last year.**

-86%

change in ECL charge/profit H1 2021 vs H1 2020

(x6 H1 2020 vs H1 2019)

9

banks out of 26 have a net ECL profit in H1 2021

(none at YE 2020)

-8%

average change in ECL allowance for amortised cost loans

(+28% YE 2020 vs 2019)

54%

average weight of change in the post-model adjustments in the ECL P&L impact in H1 2021

(27% at YE 2020)

2. Sample and methodology

2. Sample and methodology

This study is based on information disclosed in the interim 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. It may happen that figures presented, such as the ECL coverage ratio, have been calculated using input data from the interim reports. If so, the detailed methodology for producing such figures is explained below each graph.

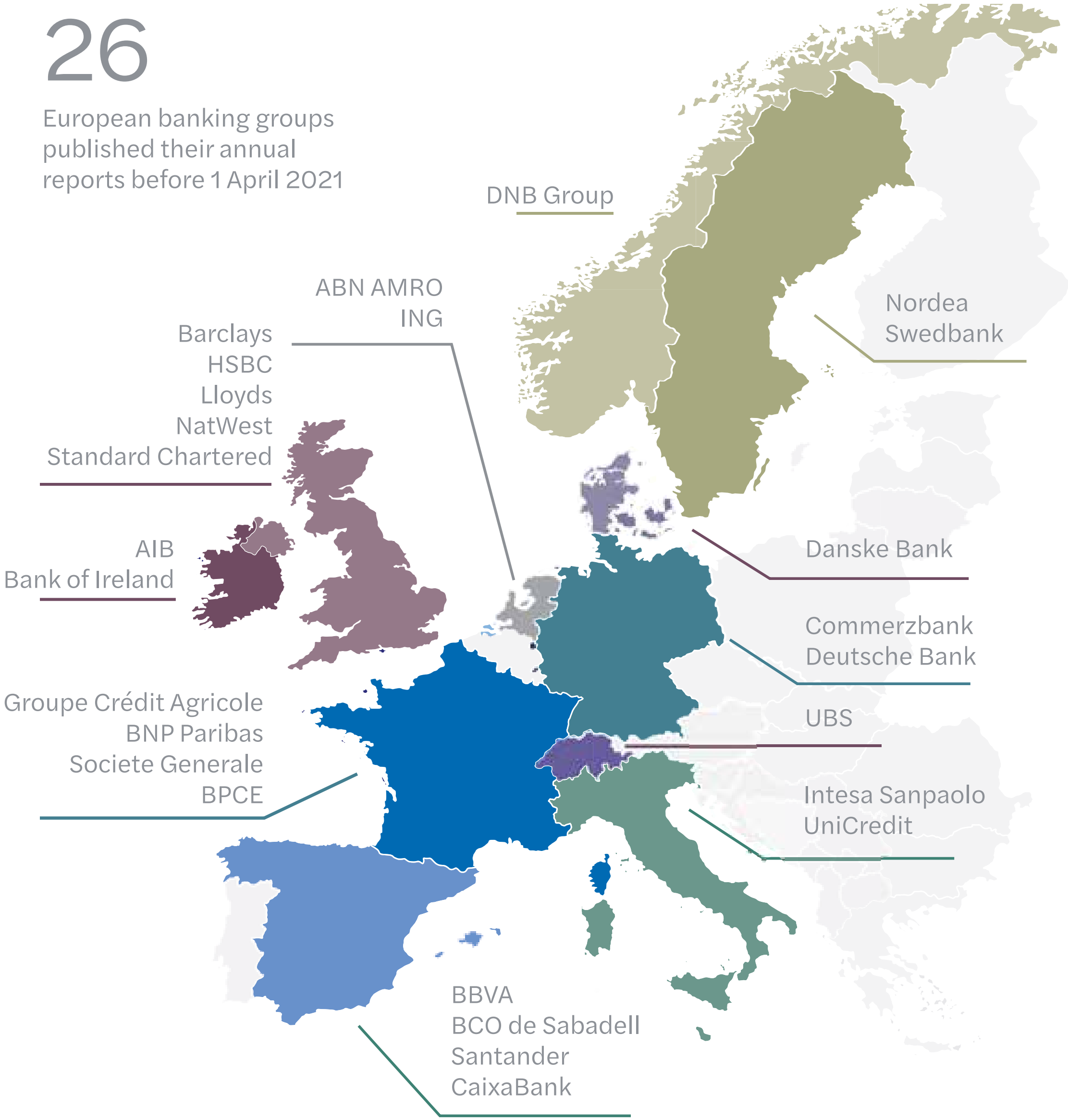
The graphs using figures that required specific calculations are indicated with the 'magnifying glass' icon, as seen on the left.

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 2021



3. Key findings

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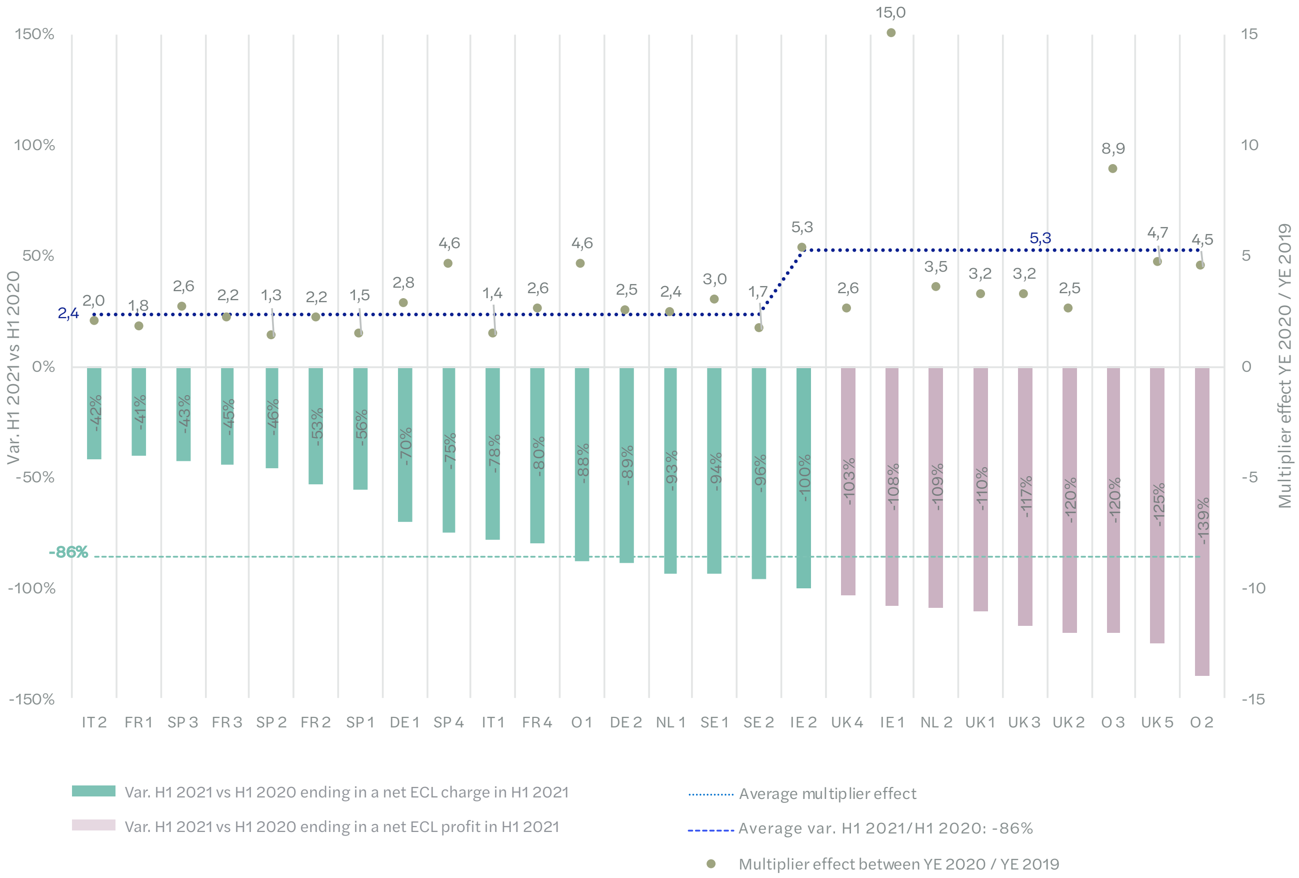
3.1 Changes in ECL charge/profit H1 2021

Graph 1: Changes in ECL charge/profit



Insights

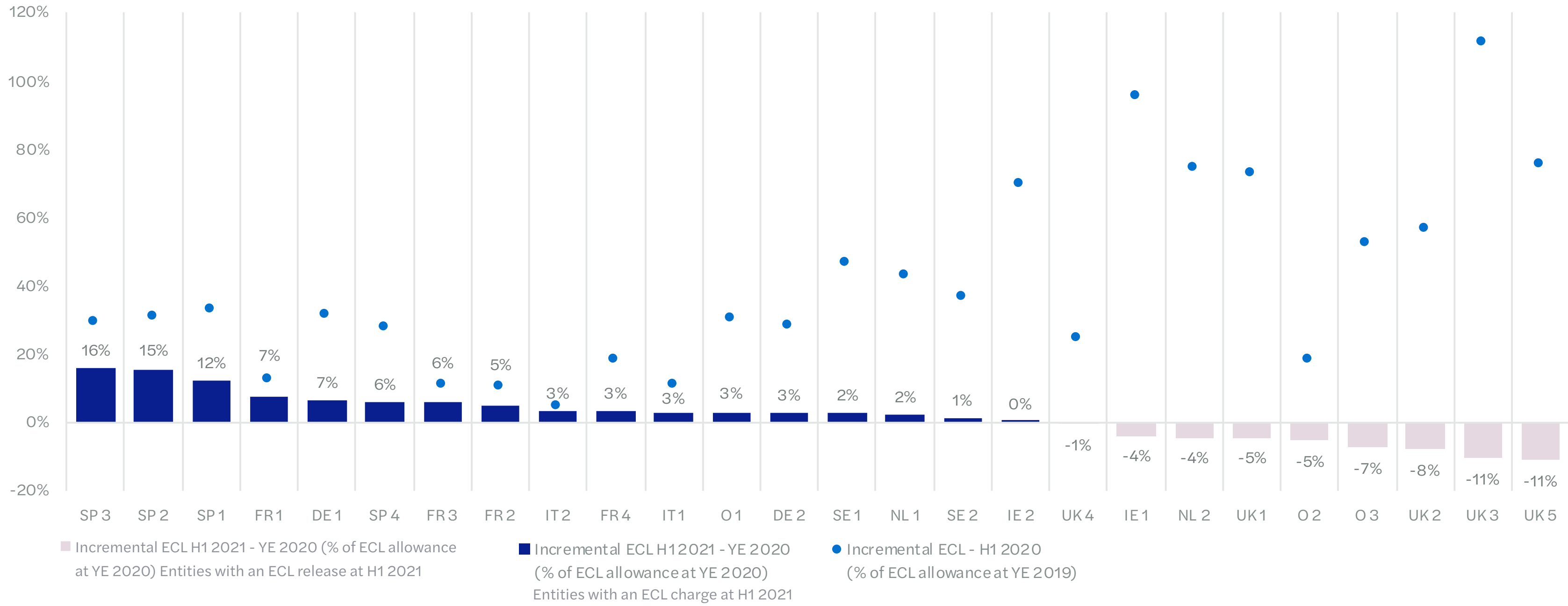
- In H1 2021, all banks in the sample present a significant decrease in their ECL charge compared to H1 2020 : the average decrease is -86% within a range of -42% to -139%.
- 38% of the banks (9 banks) present an ECL net release at the end of H1 2021 (variation > 100%).
- Figures are quite consistent by country - with UK and Irish banks experiencing a net ECL profit whereas French, Italian and Spanish banks kept a net ECL charge.
- Most of the banks that experienced the highest increase in ECL charge last year are now among those who have a net ECL release in H1 2021.

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 H1 2021 and H1 2020.

3. Key findings

3.2 Incremental ECL (% of ECL allowances)

Graph 2: Incremental ECL
(charge for H1 2021 expressed as % of ECL allowance at YE 2020; charge for H1 2020 expressed as % of ECL allowance at YE 2019)



Insights

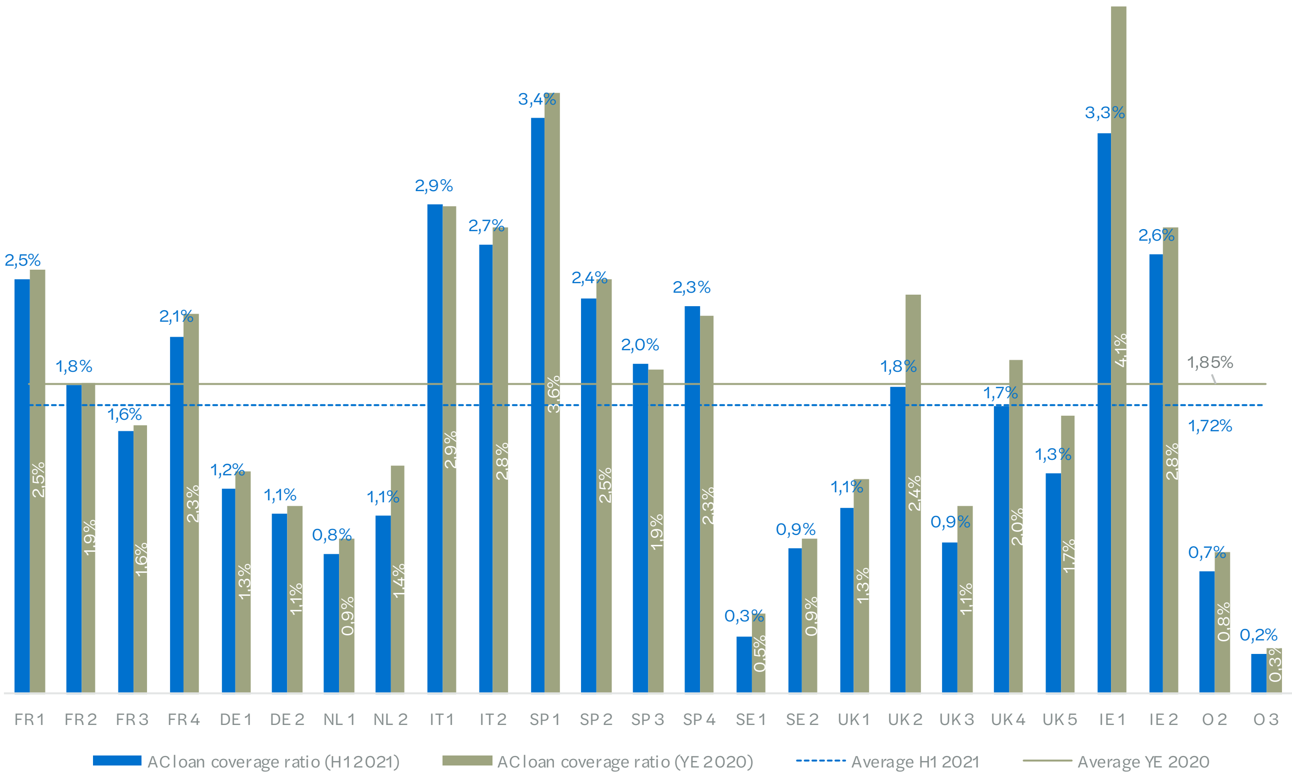
- In H1 2021, there is a wide range of incremental ECL allowance (from +16% to -11%.)
- Similar to our earlier findings, we can see:
  - Consistent bank behaviour by country (UK and Irish banks on one side, Spanish, French and Italian banks on the other).
  - Generally, banks with the highest incremental ECL allowance in H1 2020 are those with a negative incremental ECL in 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 H1 2021.

3. Key findings

3.3 ECL Coverage ratios of AC loans

Graph 3: AC loans coverage ratio



Insights

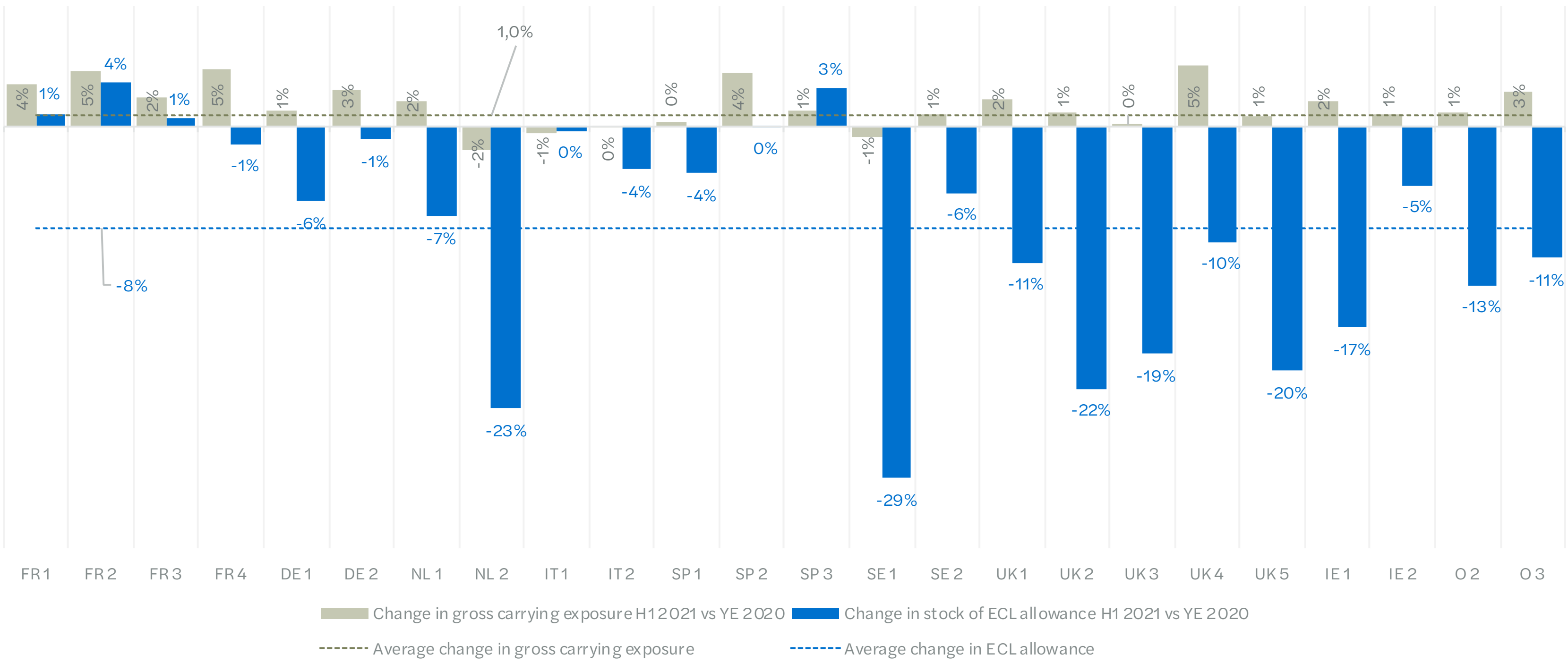
- The average ECL coverage ratio of AC loans is 1.72% at H1 2021 (1.85% at YE 2020).
- Almost all banks show a decrease in their coverage ratio even for banks that have an ECL charge in H1 2021.
- We still observe significant variation in the levels of global ECL coverage ratio (between 0.2% and 3.4% in H1 2021 compared to 0.3% to 4.1% at YE 2020).
- As for YE 2020, there is fairly strong 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

3.4 AC loans: change in gross credit exposures (GCE) and in ECL allowances

Graph 4: Changes in gross credit exposure of AC loans and in ECL allowance in H1 2021 compared to YE 2020



Insights

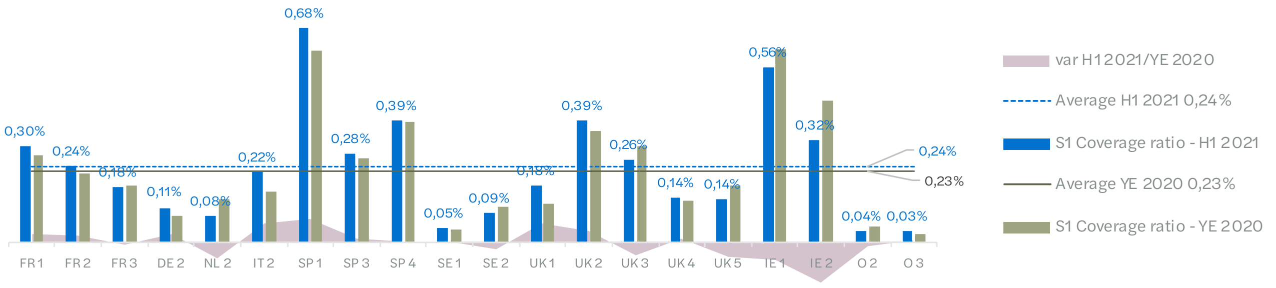
- Globally gross credit exposures have increased (average +1%).
- ECL allowances have decreased by 8% on average but within a large range from -1% to -29%.
- Almost all the banks that show a stronger decrease than the average in their ECL allowance have an ECL release in their P&L.

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 4 offer an approximation of the changes in the volumes of AC loans subject to the IFRS 9 impairment model. SP 4 does not appear in that graph because of an acquisition made in H1 2021 and not because of a lack of detailed disclosures.

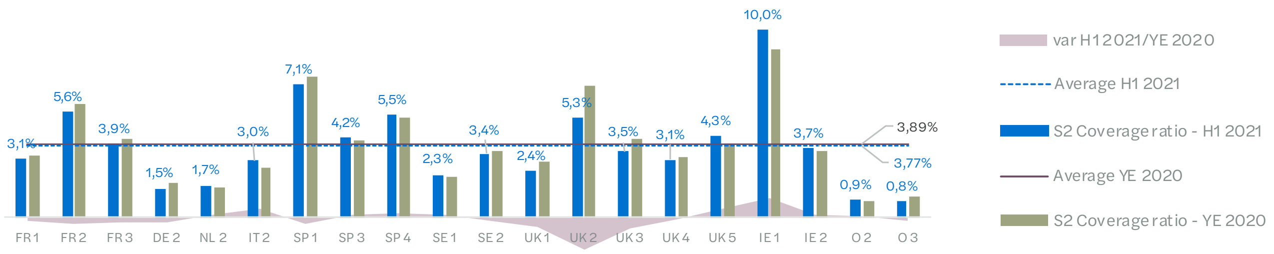
3. Key findings

3.5 AC loans: coverage ratio broken down by stage

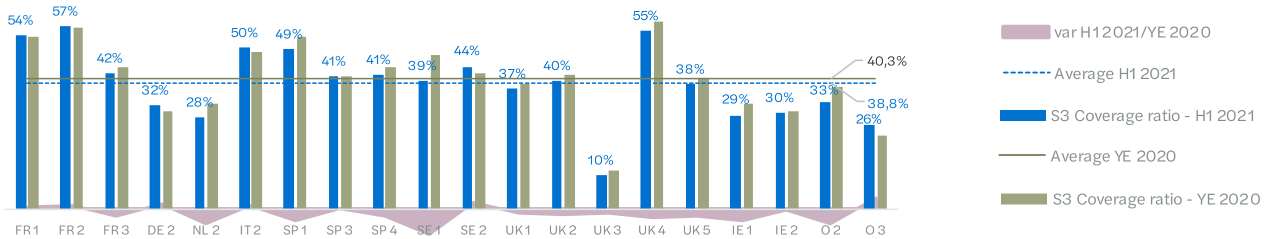
Graph 5.1: AC loans – stage 1 coverage ratio



Graph 5.2: AC loans – stage 2 coverage ratio



Graph 5.3: AC loans – stage 3 coverage ratio



Insights

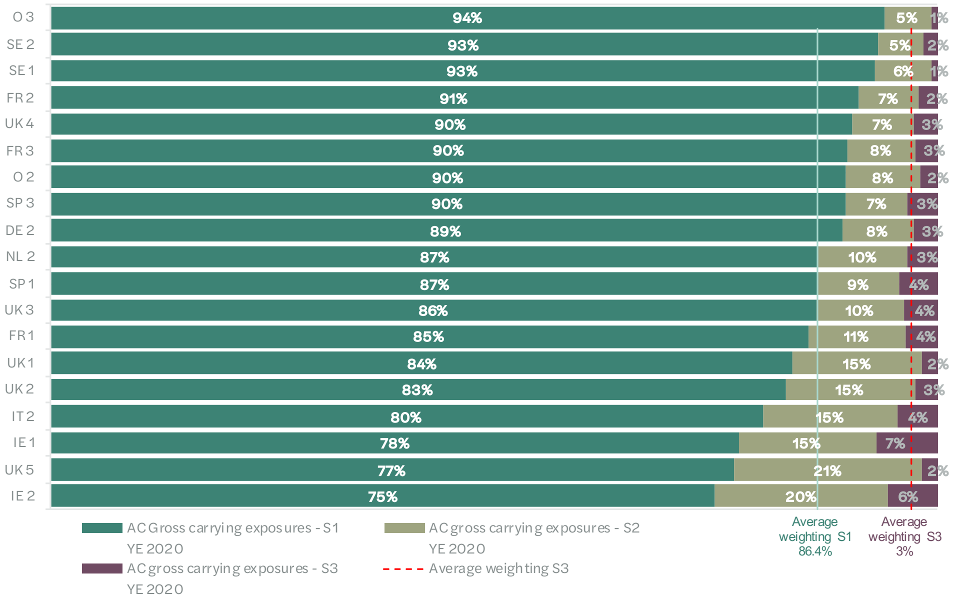
- On average, the stage 1 and stage 2 coverage ratios remain stable.
- Most of the banks experienced a decrease in their stage 3 AC loan coverage ratio leading to an average ratio moving from 40.3% to 38.8%.
- Observed variations in coverage ratios remains quite heterogeneous from one bank to another - even within a given country.

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 3 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.

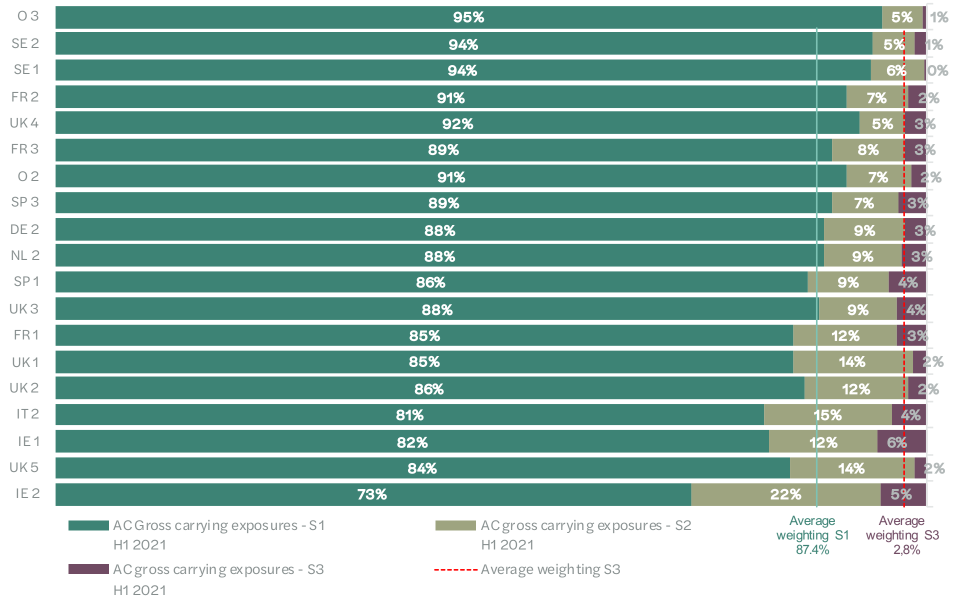
3. Key findings

3.6 Breakdown of AC loans gross credit exposures by stage

Graph 6.1: Allocation by stage of AC loans gross carrying exposures at YE 2020



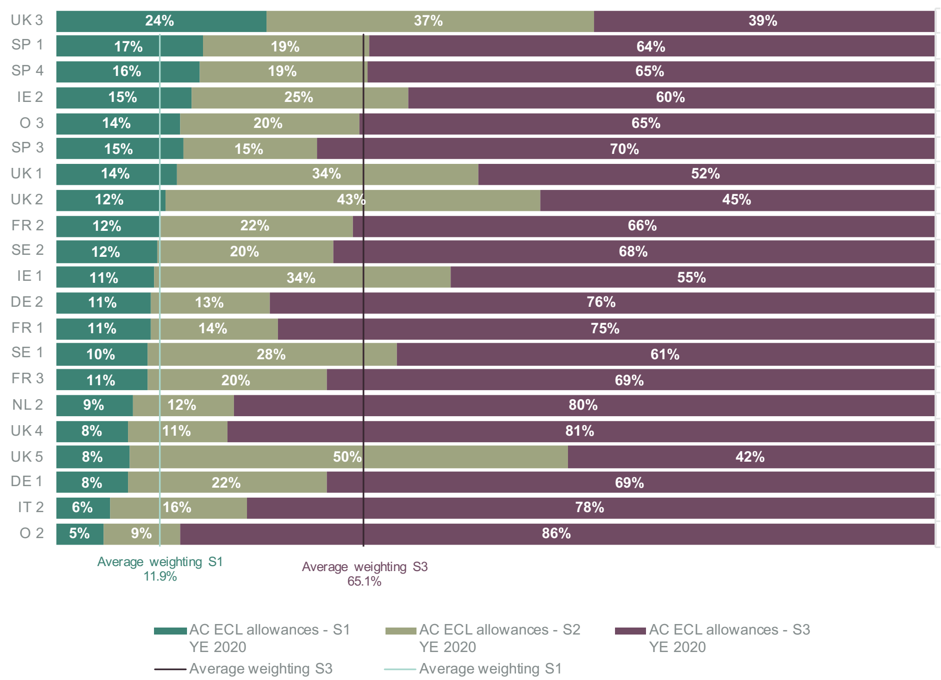
Graph 6.2: Allocation by stage of AC loans gross carrying exposures at H1 2021



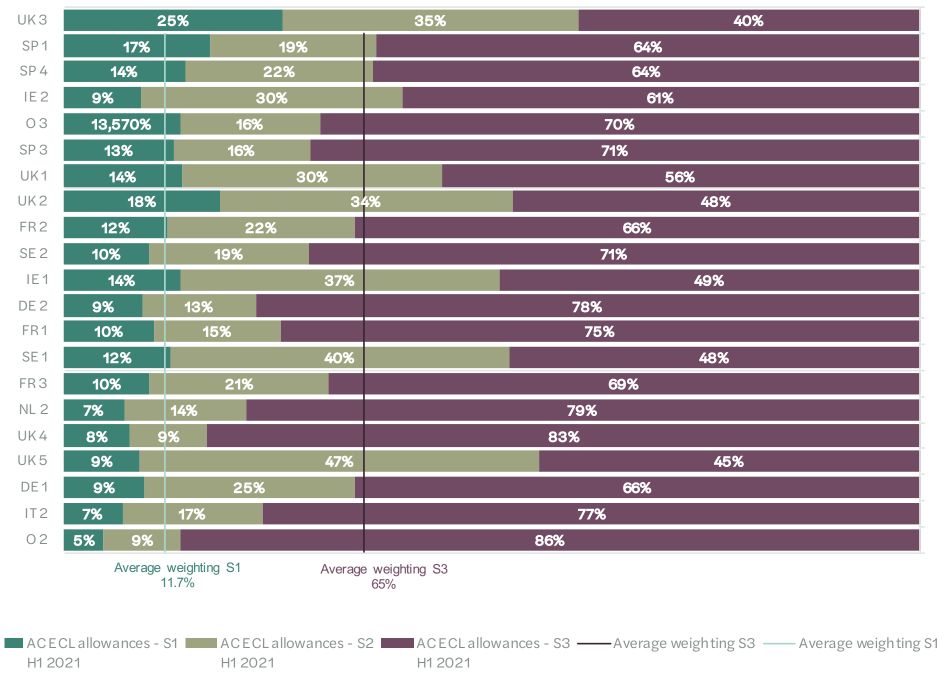
3. Key findings

3.7 Breakdown of AC loans ECL allowances by stage

Graph 7.1: Allocation by stage of AC loans - ECL allowances at YE 2020



Graph 7.2: Allocation by stage of AC loans - ECL allowances in H1 2021

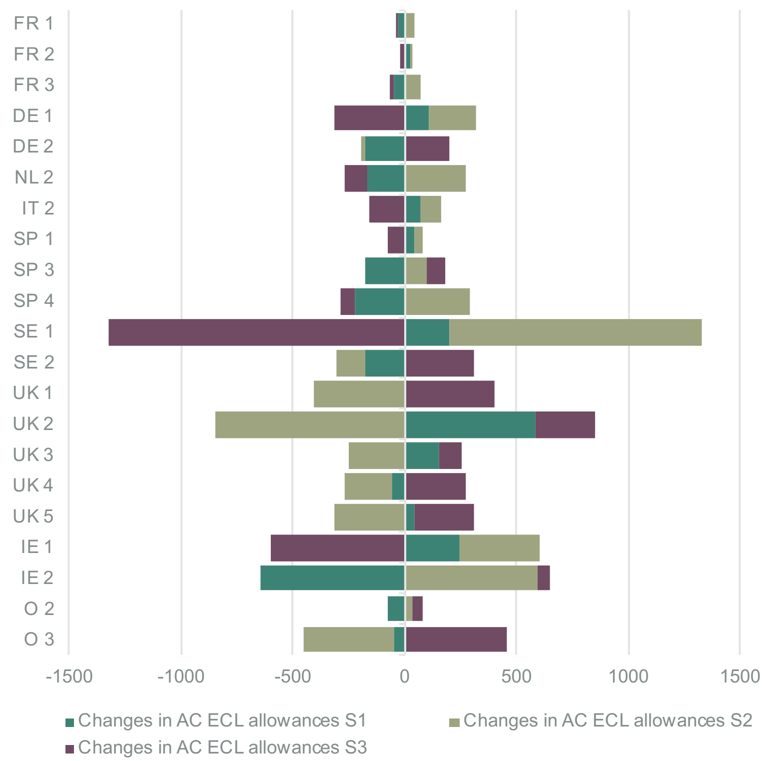


3. Key findings

3.8 Breakdown of changes in AC loans gross credit exposure and ECL allowance by stage

Graph 8.1: Changes in AC loans - GCE by stage H1 2021 vs YE 2020 (bps)

Graph 8.2: Changes in AC loans - ECL allowances by stage H1 2021 vs YE 2020 (bps)



3. Key findings

3.9 Post-model adjustments/overlays

23

banks disclosed having overlays or post-model adjustments

18

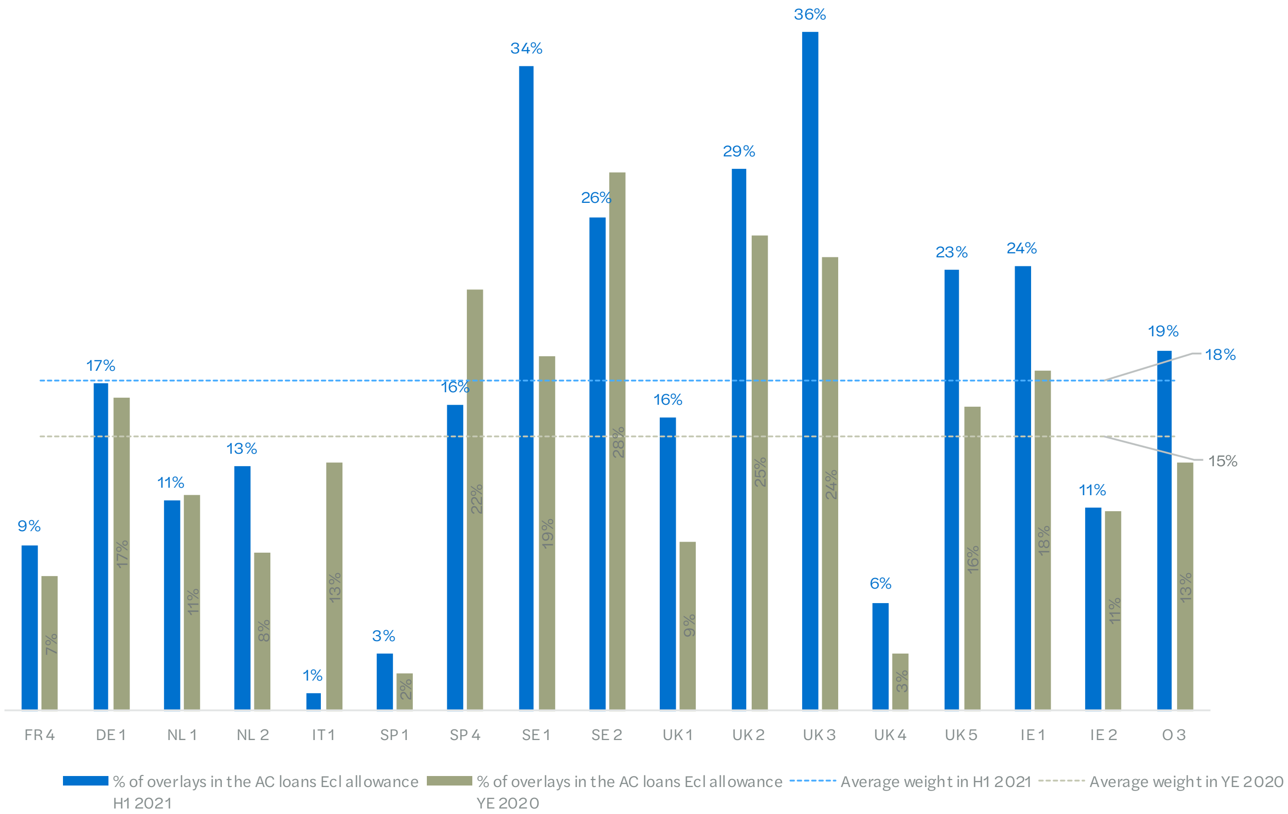
banks disclosed the amounts of their overlays or post-model adjustments in H1 2021 and YE 2020

100%

of 18 banks have a cumulated overlay that is an ECL charge

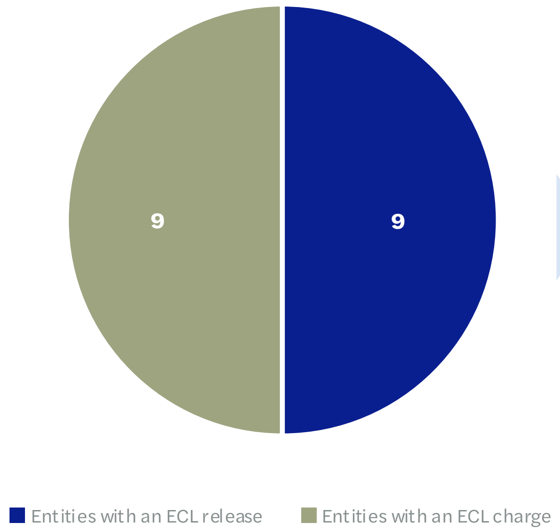
Note: A post-model adjustment is an incremental ECL that increases (or decreases) the ECL resulting from the bank's IFRS 9 impairment models. Banks use different denominations for such adjustments (management overlay, top-level adjustment, management adjustment, additional adjustment, overlay provisions, etc.)
Several banks disclosed having several post-model adjustments. For each bank, the sum of all its overlays in H1 2021 is called H1 2021 cumulated overlay.

Graph 9.1: Weight of cumulated overlays in AC loans ECL allowance H1 2021 vs YE 2020



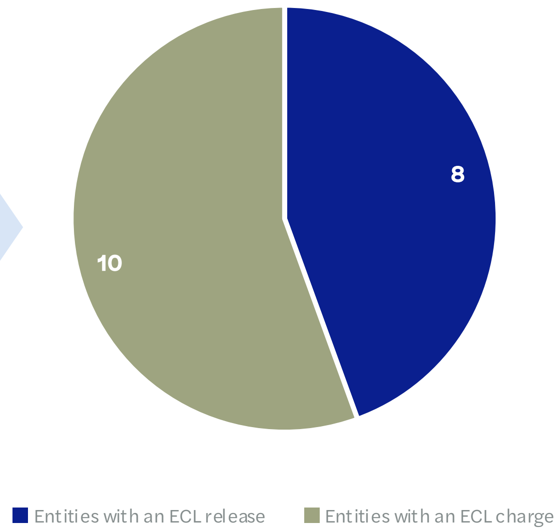
3. Key findings
3.9 Post-model adjustments/overlays

Graph 9.2: ECL charge/profit before change in overlays



Changes in overlays in H1 2021

Graph 9.3: ECL charge/profit after overlays



Insights

- Only 1 bank out of 18 experienced a change in the ECL net impact (moving from ECL profit to ECL expense) caused by overlay adjustments.

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 denominations for such adjustments (management overlay, top-level adjustment, management adjustment, additional adjustment, overlay provisions, etc.)
This graph deals with each bank cumulated overlay defined as the sum of all its overlays.

3. Key findings
3.9 Post-model adjustments/overlays

54%

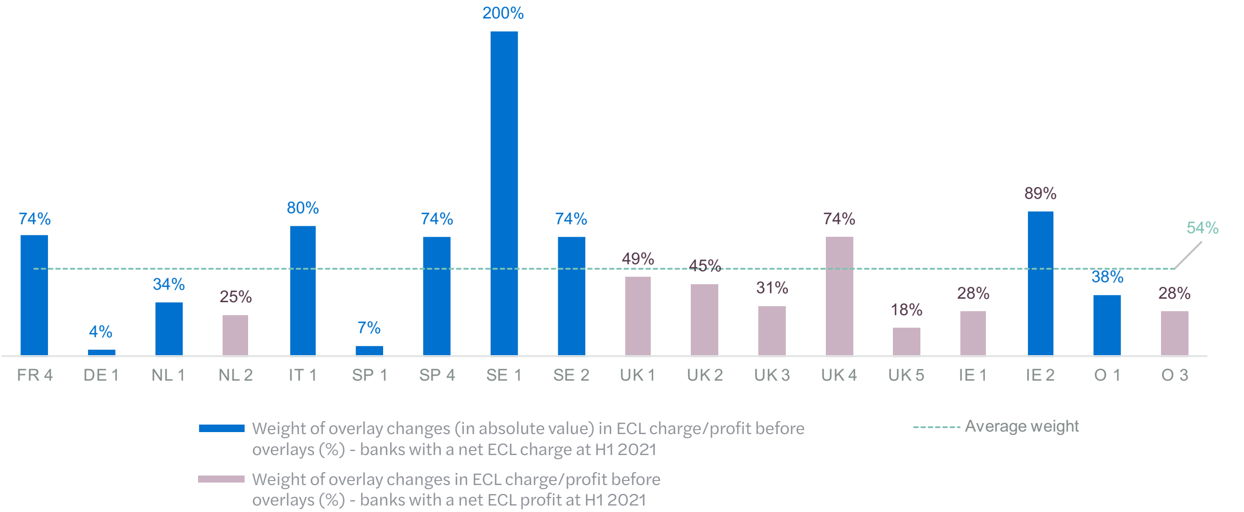
the average weight of the change in overlays in ECL profit/loss before overlays (in absolute value)

Insights

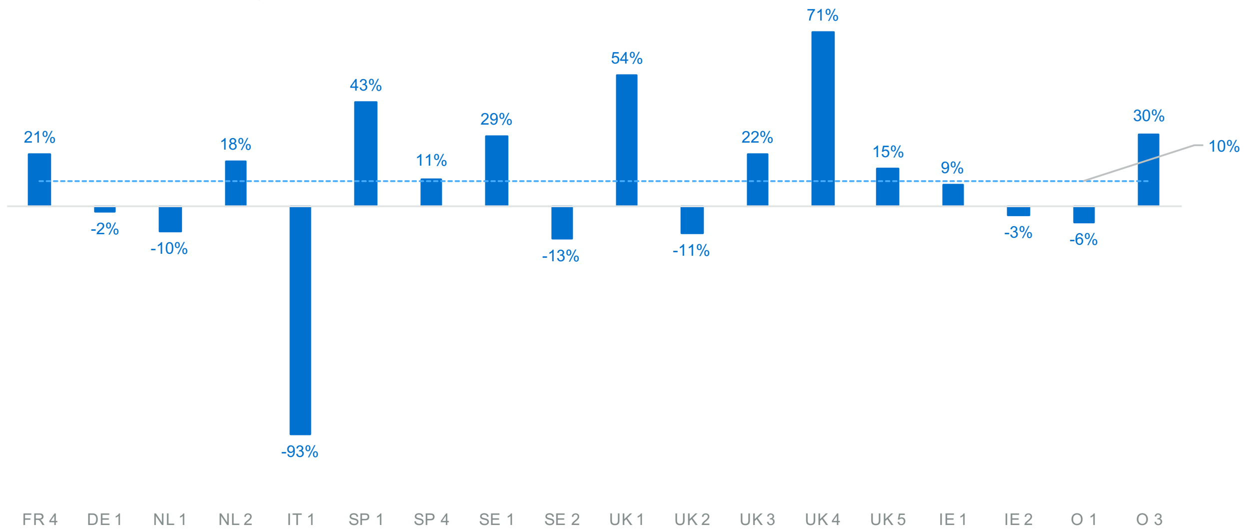
- A decrease in overlays (negative amount) means a "profit" impact in H1 2021.
- An increase in overlays (positive amount) means a "loss" impact in H1 2021.

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 (%) in H1 2021 has been calculated by dividing the changes of overlays in absolute value by the ECL charge/profit in P&L before overlays.

Graph 9.4: Weight of overlays in ECL charge/profit before overlays (%) H1 2021

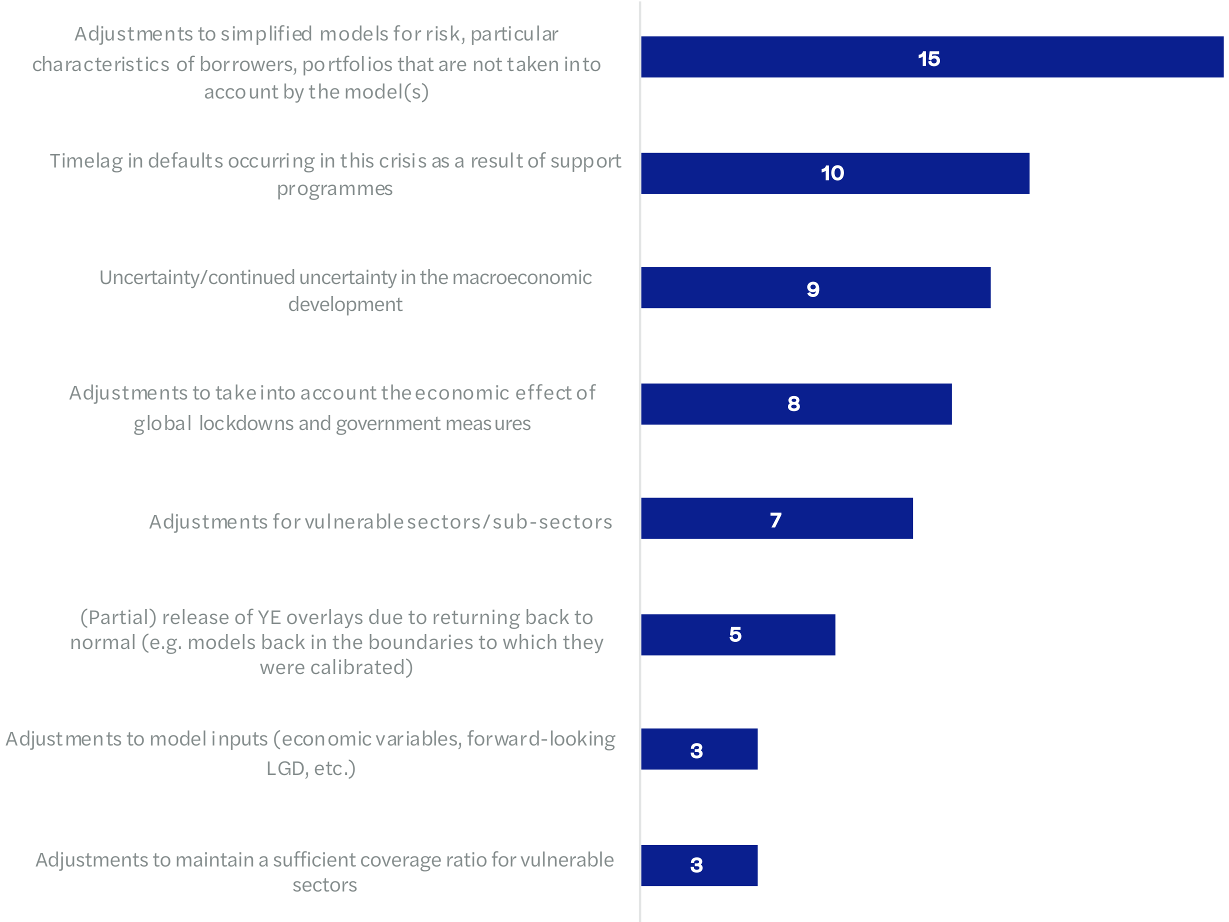


Graph 9.5: Change in overlays H1 2021 vs YE 2020



3. Key findings
3.9 Post-model adjustments/overlays

Graph 9.4: 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 uses different denomination 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, classifying work encompasses judgmental areas.

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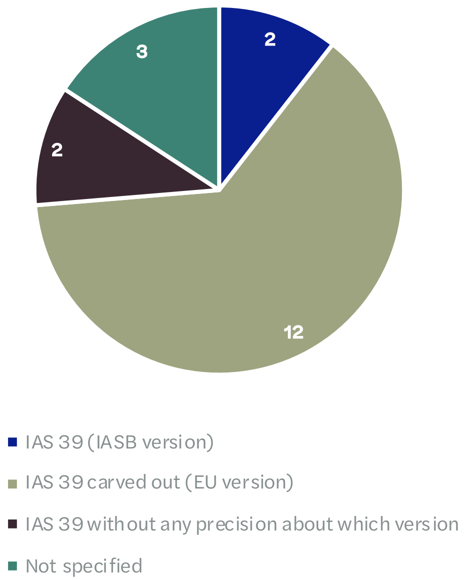
3.10 FVH hedge of portfolios or macro-hedging

Graph 10: FVH hedge of portfolios



Note: We often have to look at annual reports to elaborate this graph.

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