Financial reporting of European banks

How are expected credit losses grappling with persistent uncertainty?

Based on the 2023 annual reports provided by European banks before 1 April 2024

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1. Executive summary

The most notable events in year-end (YE) 2023 are:

- A global decrease in the net ECL charge in profit or loss and also in the ECL allowances in the balance sheet compared to YE 2022 (–1.7% in ECL allowances between YE 2022 and YE 2023.)
- An average amortised cost loan coverage ratio that decreased compared to 2022 (1.36% in YE 2023 vs 1.40% in YE 2022) 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 weight of post-model adjustments/overlays in ECL charge/release and in the balance sheet that have continued to decrease since YE 2021 (12% of the loss allowances in YE 2023 vs 14% in YE 2022 and 16% in YE 2021.)

-3%

change in average ECL charge/profit YE 2023 vs YE 2022

(+106% YE 2022 vs. YE 2021)

12%

weight of cumulative overlays in AC loans ECL allowance YE 2023

(14% YE 2022)

16%

average share of ECL charge in operating profit or loss before ECL in YE 2023

(20% YE 2022)

18%

average weight of change in the post-model adjustments in the ECL P&L impact in YE 2023

(30% YE 2022 and 48% in 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.

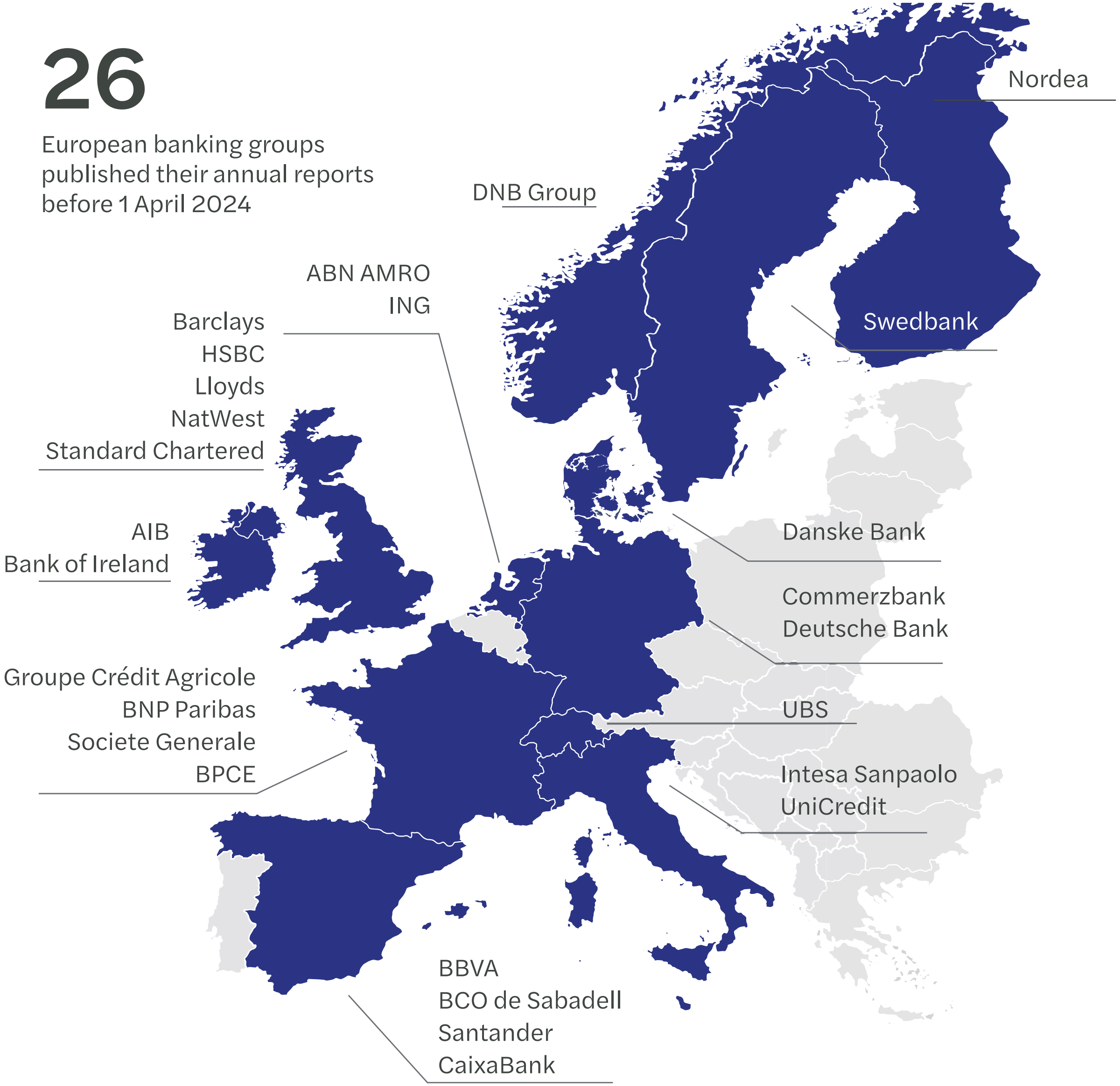
Each bank is represented by an alphanumeric code composed of two letters: FR for France and a number. When the sample presents only one bank in a country, to keep it anonymous, the country code is 'O' for other countries.

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.

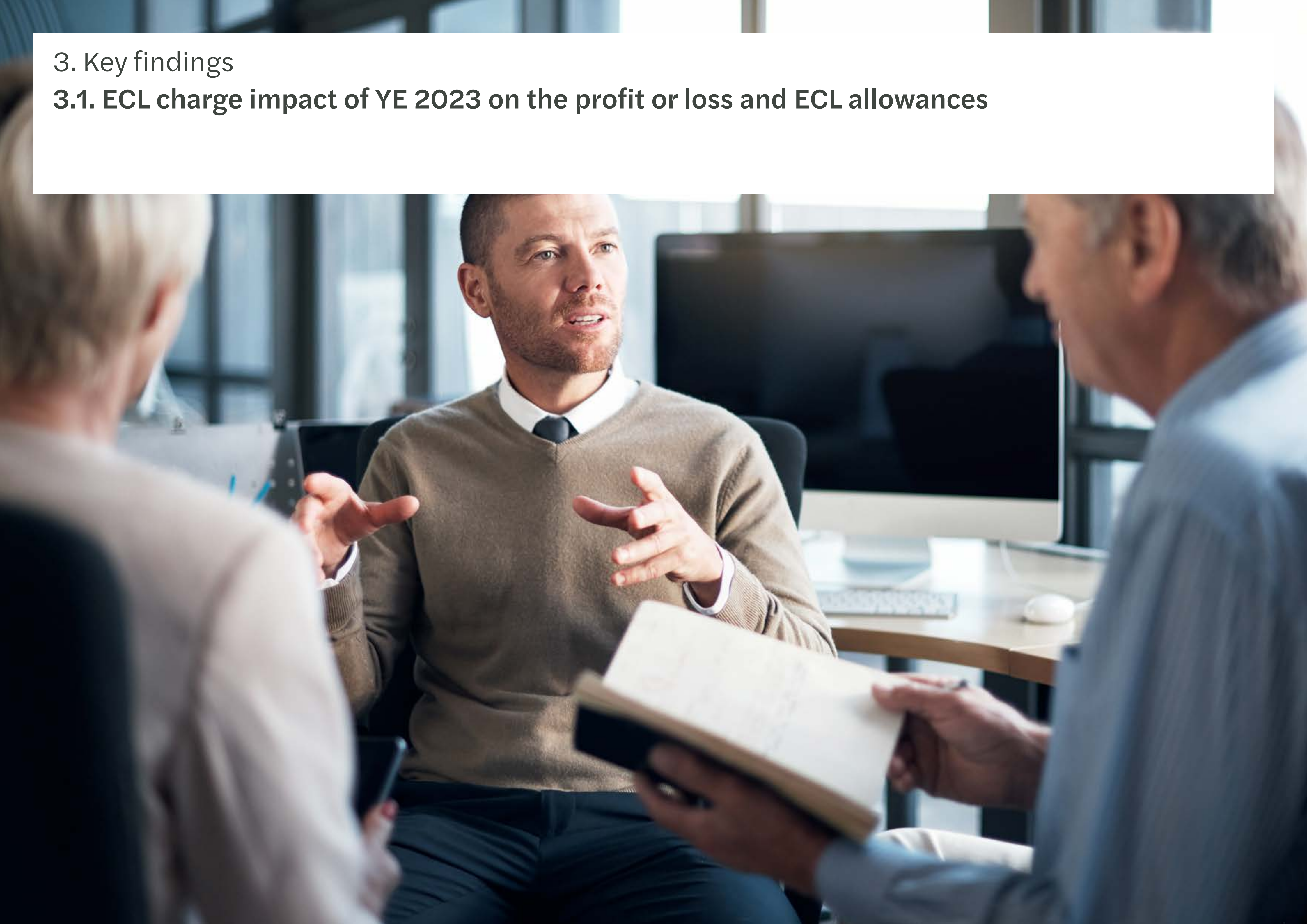
The graphs using figures that required specific calculations are indicated with the 'magnifying glass' icon, as seen on the left.

Please note that comparisons should be treated with some care, as information provided by banks does not always follow the 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.



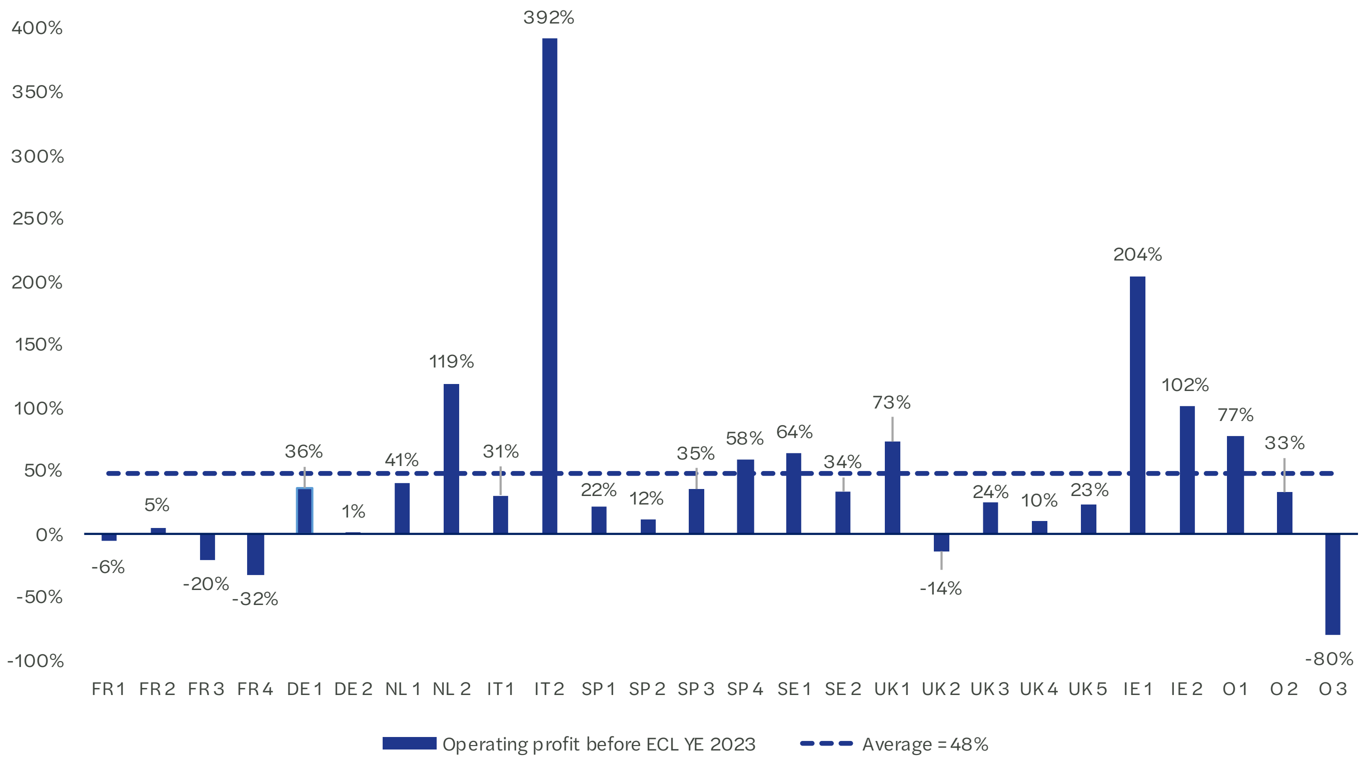
3.1. ECL charge impact of YE 2023 on the profit or loss and ECL allowances



3.1. ECL charge impact of YE 2023 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 2023 vs YE 2022)



Insights

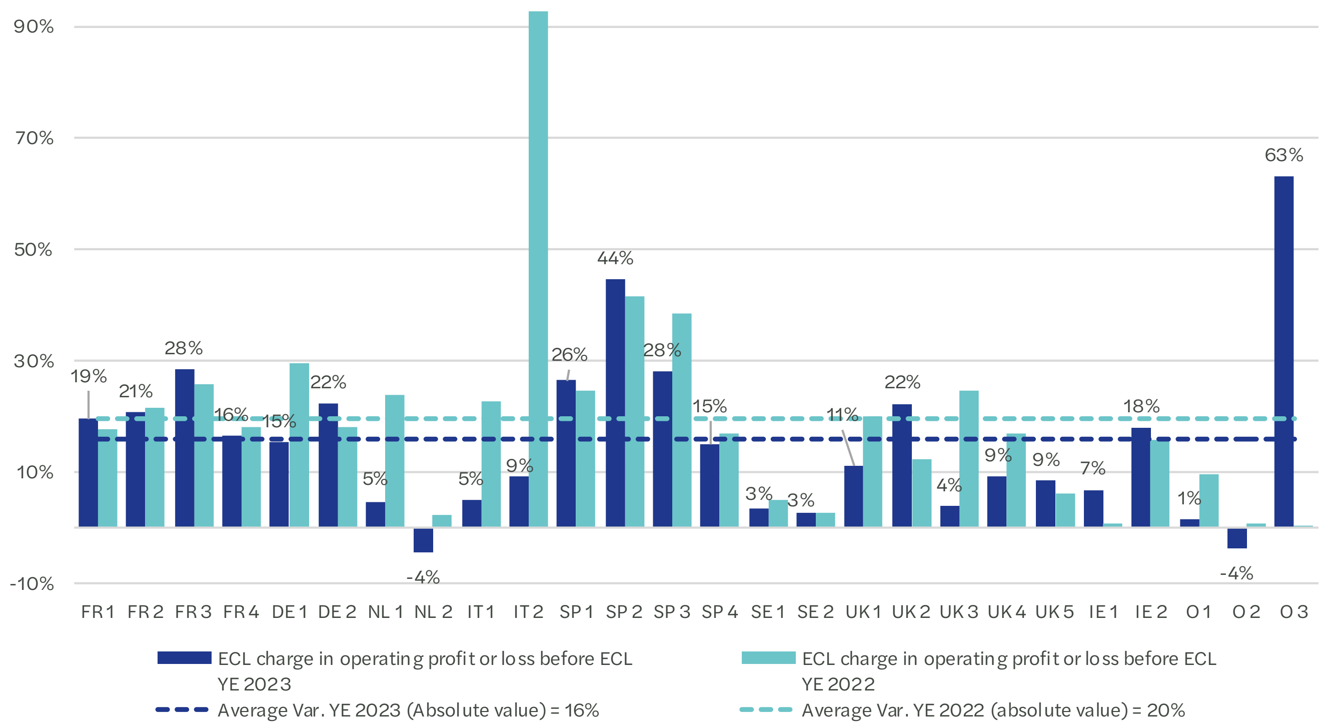
- 21 banks in the sample experienced positive growth in their operating profit or loss before the ECL charge.
- Five banks experienced a decrease in their operating profit or loss before the ECL charge, but operating profit or loss remained positive for all banks.
- IT 2 performance is mainly explained by the first application of IFRS 17 (see also next slide.)

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 the same in all the banks in the sample.)

3.1. ECL charge impact of YE 2023 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

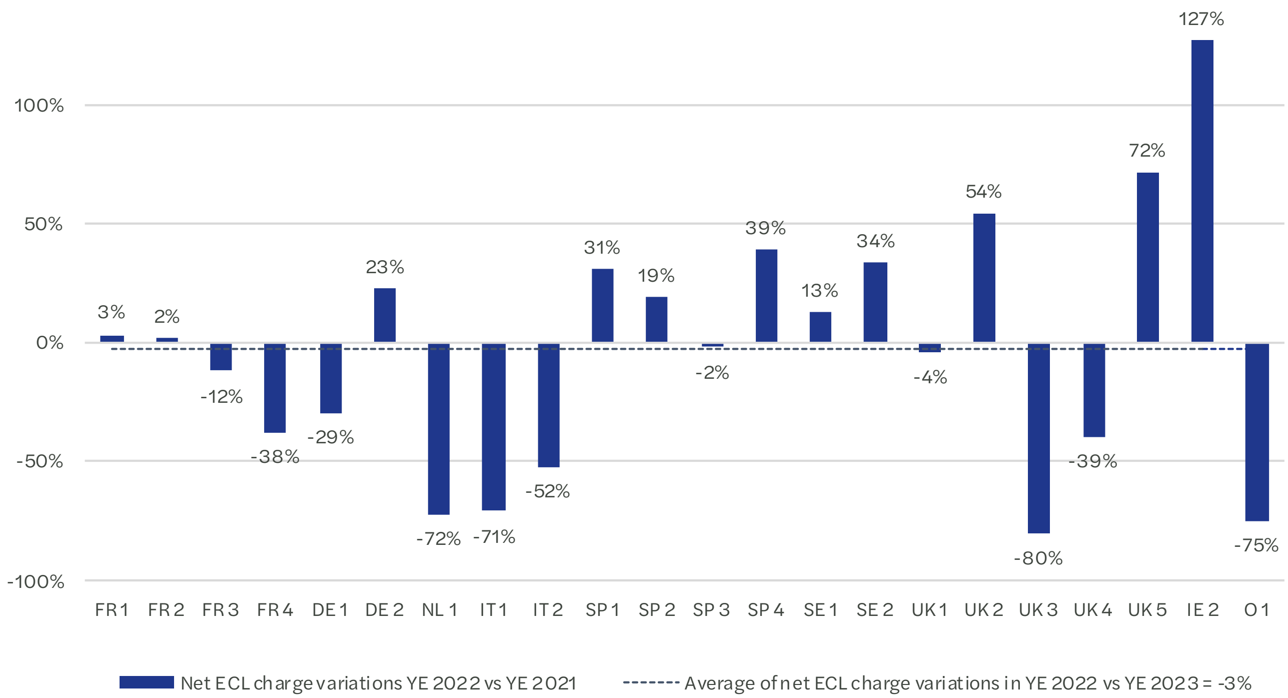
- The average ratio of the ECL charge divided by the operating profit or loss before the ECL charge decreased to 16% in YE 2023 (vs 20% in YE 2022.)
- In YE 2023, the median amounted to 13% (18% in YE 2022) with a range from -4% to 63%.
- At YE 2023, all banks of the sample, except NL 2 and O 2, have a net ECL charge in operating profit or loss before ECL All banks in the sample had a net ECL charge in 2022.
- IT 2 operating profit or loss for YE 2022 has been significantly restated due to IFRS 17, explaining the high share of ECL charge in YE 2022 and the sharp change in operating profit or loss before ECL between YE 2022 and YE 2023.
- The share of ECL charge for O 3 was 0% in YE 2022. The significant increase in YE 2023 can potentially be explained by the acquisition of a bank in a situation of pronounced losses in H1 2023.

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.

3.1. ECL charge impact of YE 2023 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 2023 vs YE 2022



Insights

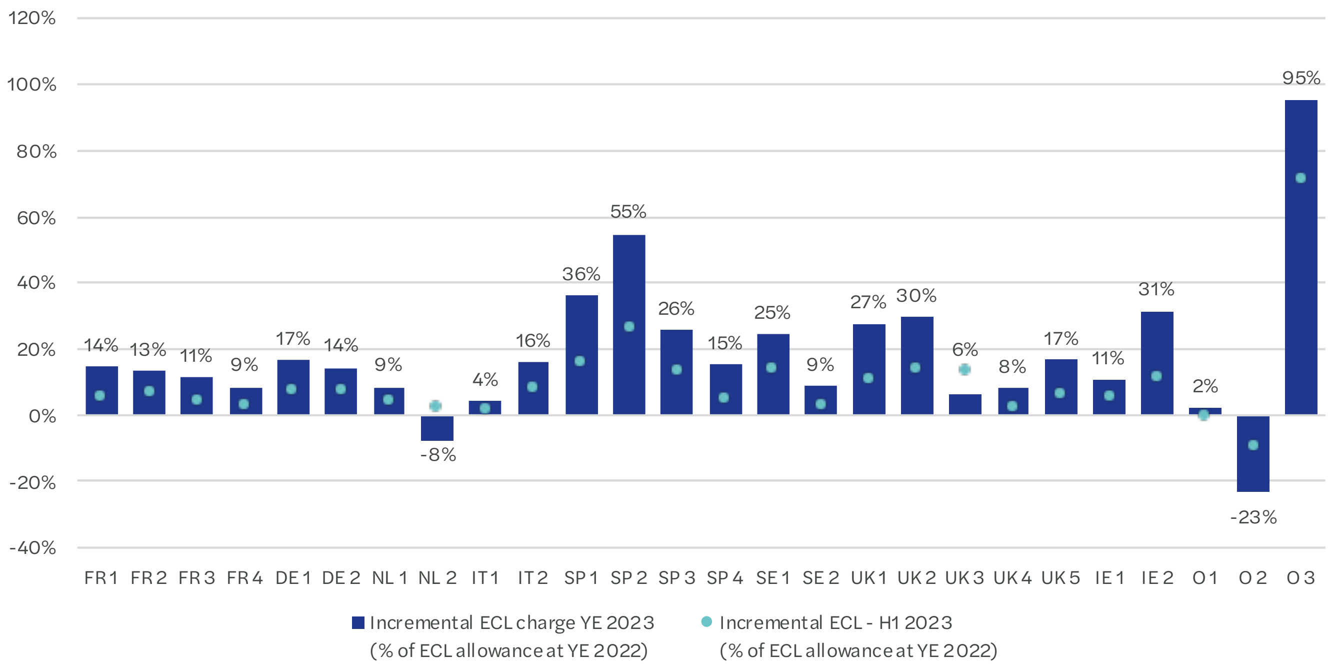
- Positive percentage numbers reflect an increase in the net ECL charge in YE 2023 compared to YE 2022.
- In YE 2023, the sample is fairly balanced between banks that have seen an increase in their ECL charge (11 banks) and those that have seen a decrease (11 banks.)
- The average change in ECL results in a decrease of -3% but the situations of EU banks are fairly diverse.
- A high change in net ECL charge in YE 2023 can be explained by a low level of ECL charge in YE 2022. NL 2, IE 1, O 2 and O 3 values are not represented in this graph nor the average because of irrelevant values (respectively -505%, +2,357%, -827% and +3,476%.)
- Situations in YE 2023 are more diverse compared to YE 2022 when geographical trends could be identified. However, we can see that the general trend is for ECL charge variations to be more contained, both upwards and downwards compared with YE 2022, which saw an average increase of net ECL charge of 106%.

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.

3.1. ECL charge impact of YE 2023 on the profit or loss and ECL allowances

3.1.4 Incremental ECL (% of ECL allowances)

Graph 4: Incremental ECL (charge at YE 2023 expressed as a % of ECL allowance at YE 2022 charge at H1 2023 expressed as a % of ECL allowance at YE 2022)



Insights

- At YE 2023, there is a wider range of incremental ECL allowances than last year: from -23% to 95%, to be compared to a range from +45% to 0% in YE 2022. But 22 banks out of 26 are within last year's range.
- Overall, we see more balance in the pace of the ECL charge throughout the year 2023 compared to previous years, with the notable exceptions of NL 2 and UK 3, which endowed their ECL in H1 2023 before at least partially releasing them during H2 2023 (leading to a global net ECL release in YE 2023 for NL 2.)

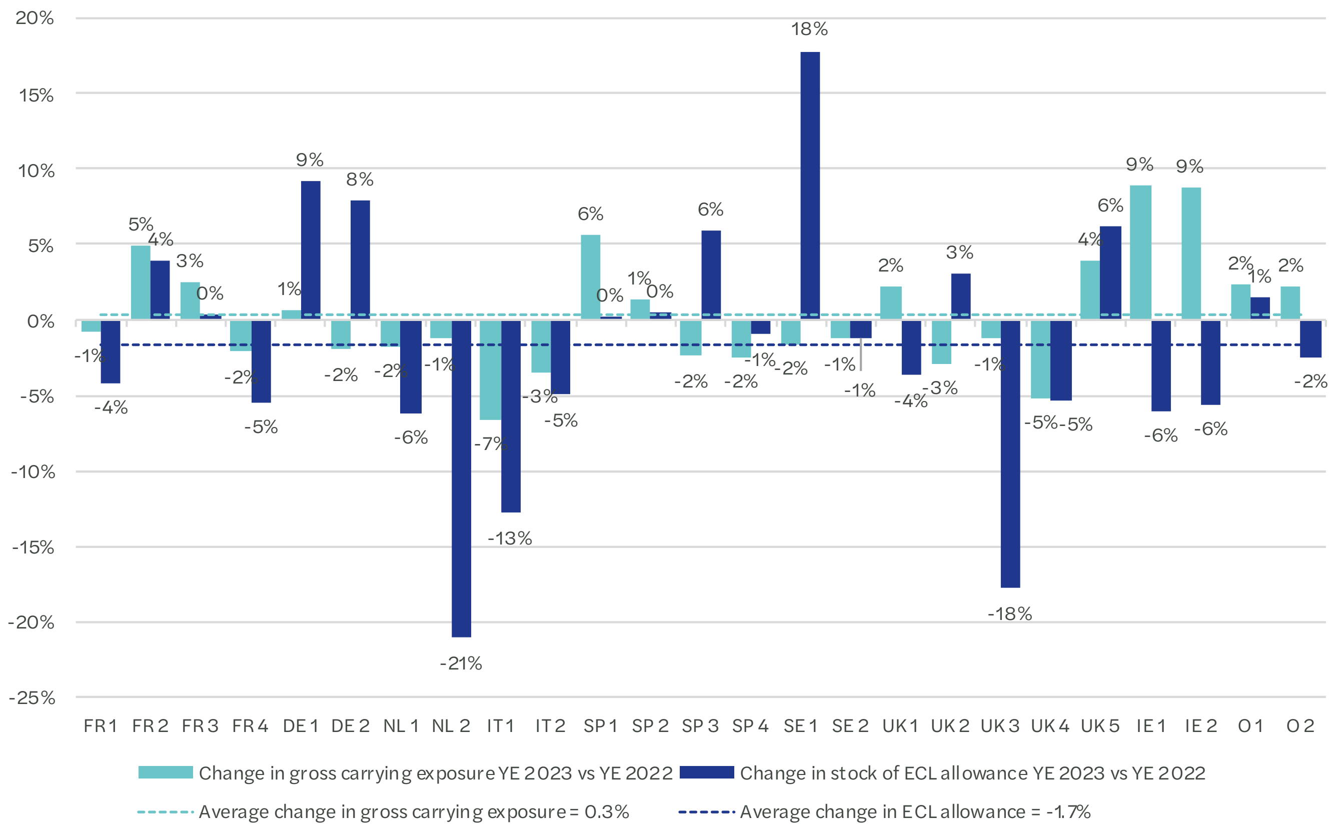
This graph presents the IFRS 9 ECL losses and ECL allowances concerning assets at amortised cost, assets at FV-OCI and off-balance sheet commitments and guarantees. A negative incremental ECL indicates a net ECL profit in YE 2023.

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

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 2023 compared to YE 2022



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.

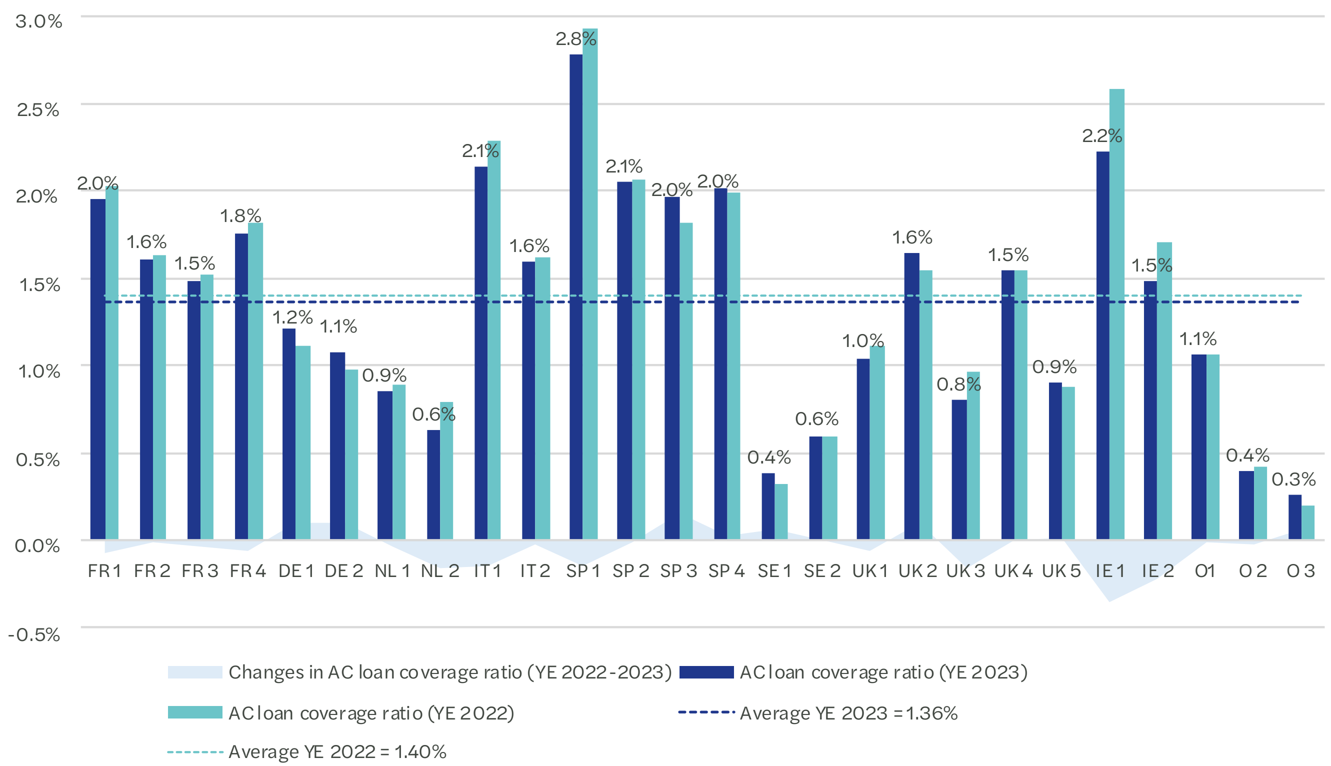
Insights

- Globally, gross credit exposures are stable on average (+0.3%) within a relatively limited range (from -7% to +9%.) ECL allowances share a different trend as they show a slight average decrease of -1.7% with a greater range (from -21% to +18%.)
- O 3 has neither been considered in this graph nor the average, as their major acquisition in H1 2023 led to irrelevant values (respectively +65% in GCE and +117% in ECL allowances.)
- A small majority of banks (14 out of 26) experienced a decrease in their ECL allowances:
  - For most of them, this decrease was achieved in proportions that were largely more than the evolution of GCE (although to a lesser extent than YE 2022.)
  - This may raise questions as only NL 2 and O 2 showed a net ECL release in YE 2023 (see previous slides.) This situation might be explained by the derecognition of stage 3 exposures that concentrate the largest amount of ECL, which has been an identified trend over the last few years for Italian and Irish banks for example.

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

3.2.2 ECL Coverage ratios of AC loans (YE 2023 vs. YE 2022)

Graph 6.1: AC loans coverage ratio - YE 2023 vs. YE 2022



Insights

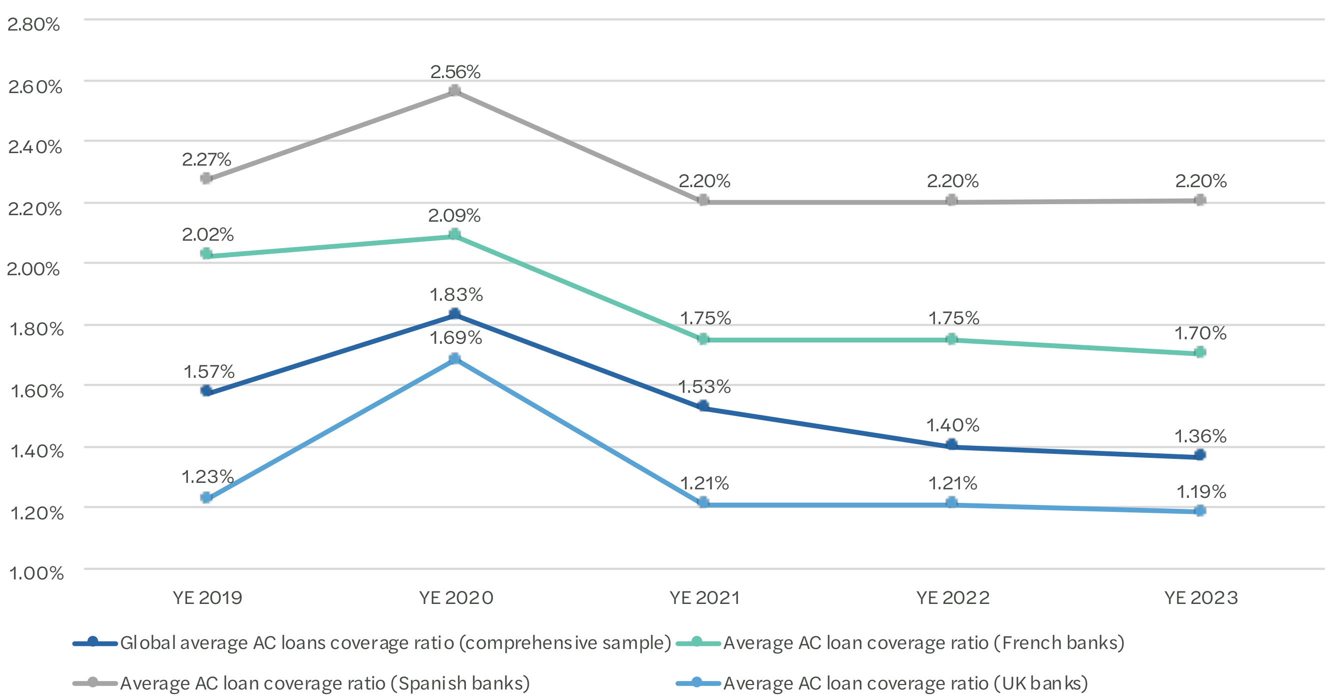
- The average ECL coverage ratio of AC loans is 1.36% in YE 2023 (1.40% in YE 2022.)
- Most banks (17) show a decrease in their coverage ratio.
- We still observe significant diversity in the levels of the global ECL coverage ratio, although the gap has been continuously narrowing since YE 2020 (between 0.3% and 2.8% in YE 2023 compared to 0.3% to 4.2% in YE 2020.)
- As for YE 2022, there is fairly good consistency in each country: French and Italian banks are either close to the average or slightly above, while Spanish and Irish banks are above the average. Dutch, Swedish and German are below the average.
- UK banks stand apart as they are split into two groups, one of them being UK 1, UK 3 and UK 5 which are below the average with a coverage ratio of around 1%, and the other one being composed of UK 2 and UK 4 that are above the average at 1.5%.

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.

3.2. 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 2023



Insights

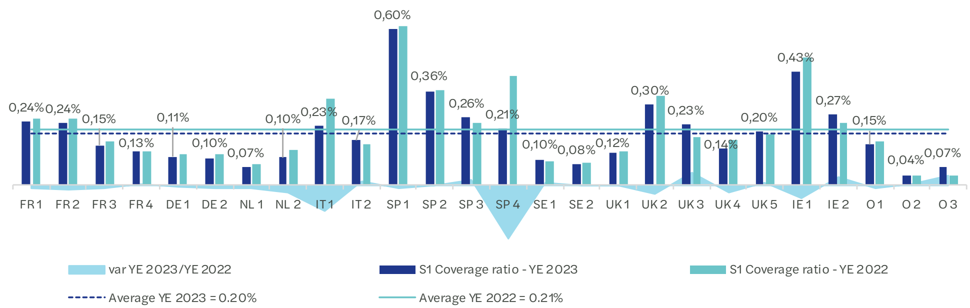
- We have considered the changes in ECL coverage ratios for French, Spanish and UK banks as they are the most represented countries in the panel (13 banks.)
- All banks show a similar trend until YE 2021 with an increase in 2020 followed by a decrease in 2021. Since then, Spanish and UK banks maintained a fairly stable coverage ratio while French banks experienced an additional decrease in 2023 (5 bps) consistently with the average coverage ratio or our sample.
- If we compare the situation in YE 2023 to that in 2019, we can see that the global average ratio of AC loans for all banks has decreased from 1.57% to 1.36%.
- This reduction was more marked for French banks, whose average coverage ratio fell from 2.02% to 1.70%, showing a coverage ratio 32 bps lower than in 2019 (compared with 7 bps for Spanish banks and 4 bps for UK banks.) However the French average coverage ratio remains 34 bps above the sample average.

Loans at amortised cost encompass the loans granted to banks and public/retail customers that are accounted for at amortised cost. 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.

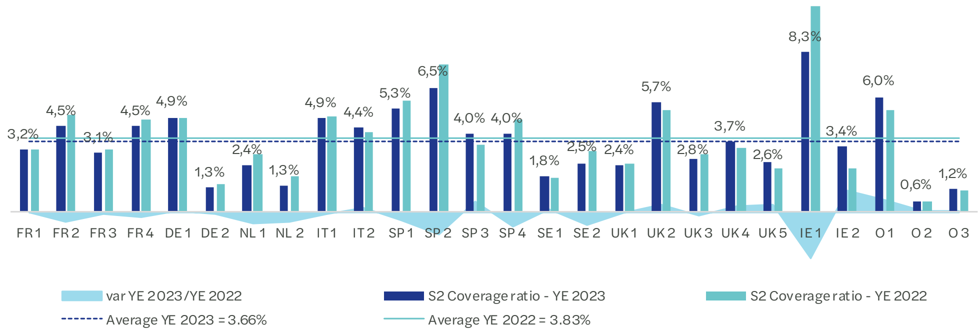
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.4 AC loans: coverage ratio broken down by stage (YE 2023 vs. YE 2022)

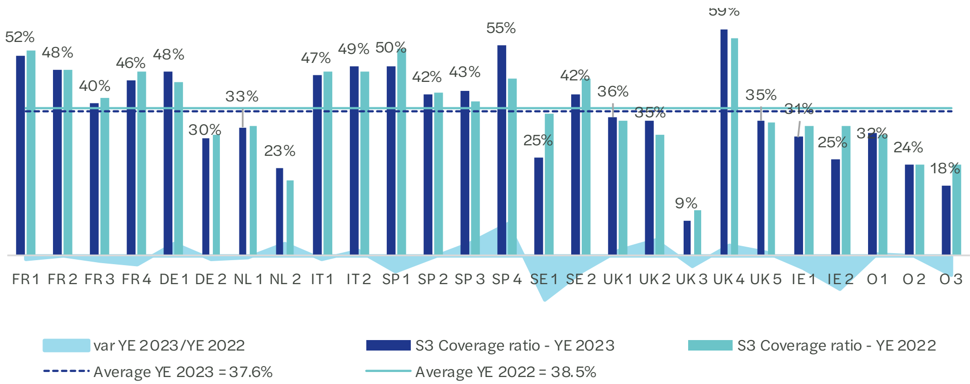
Graph 6.3: AC loans - Stage 1 coverage ratio - YE 2023 vs. YE 2022



Graph 6.4: AC loans - Stage 2 coverage ratio - YE 2023 vs. YE 2022



Graph 6.5: AC loans - Stage 3 coverage ratio - YE 2023 vs. YE 2022



Insights

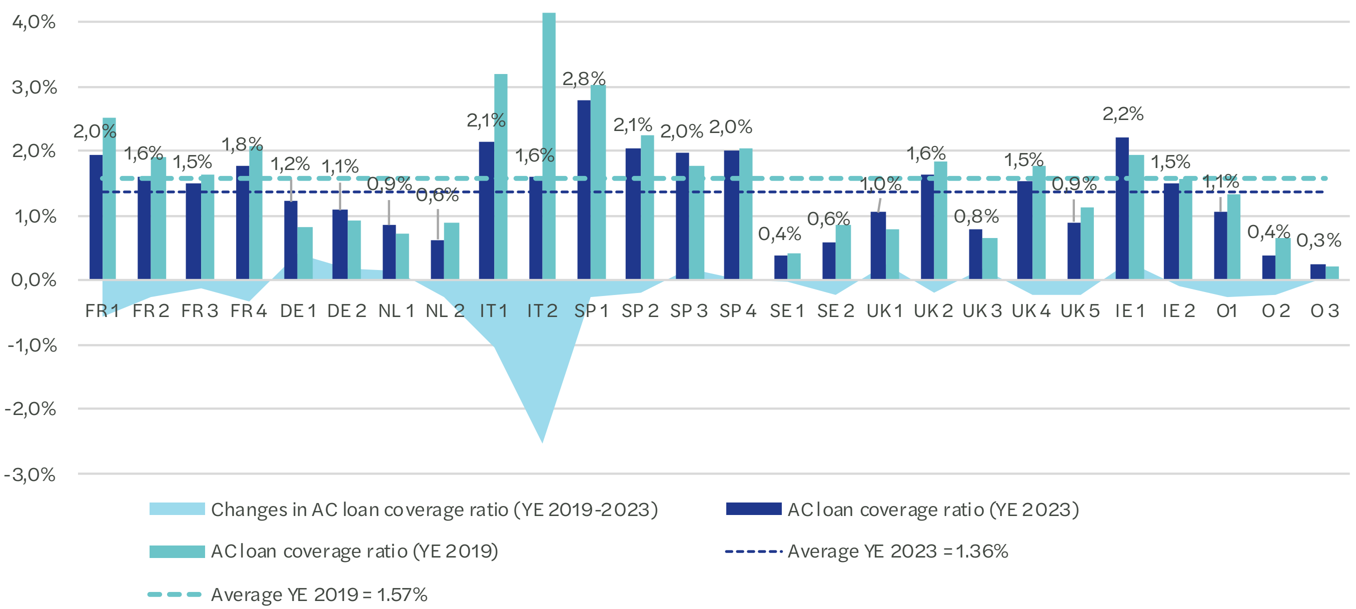
- On average, the coverage ratios remained fairly stable for stage 1 and decreased more significantly for stage 2 and stage 3 compared to YE 2022.
- Although the situation is relatively balanced between banks that have increased or decreased their coverage ratios for AC loans, overall the decreases are more marked than the increases, which explains the average fall observed for all stages.

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 of the data used to calculate these metrics are explained above.

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

3.2.5 ECL Coverage ratios of AC loans (YE 2023 vs. YE 2019)

Graph 6.6: AC loans coverage ratio - YE 2023 vs. YE 2019



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.

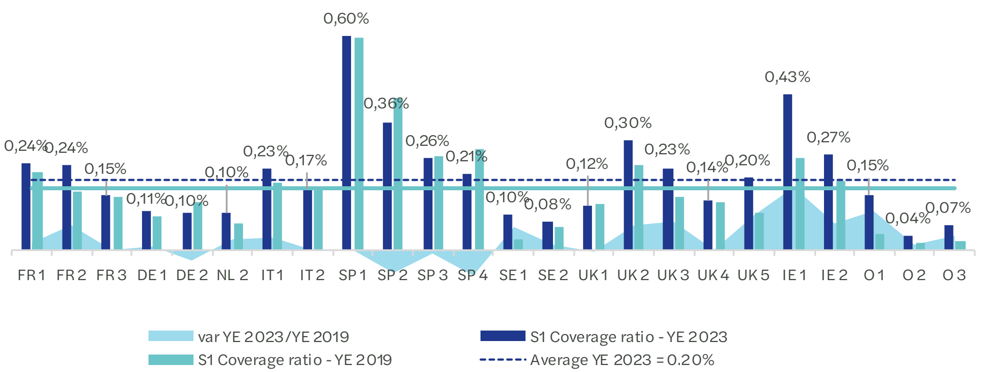
Insights

- The average ECL coverage ratio of AC loans is 1.36% in YE 2023 (1.57% in YE 2019), meaning a relative decrease of the AC loans global coverage by 21 bps.
- 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 decrease in their global coverage ratios but remained close to the average.
  - Most Dutch and German banks went through a slight increase in 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 2023 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 0.8% and 1.6% compared to 0.6% and 1.8% in YE 2019.)

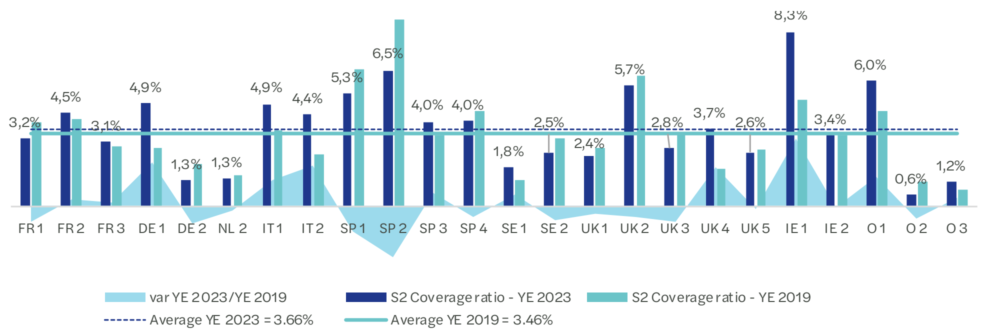
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.6 AC loans: coverage ratio broken down by stage (YE 2023 vs.YE 2019)

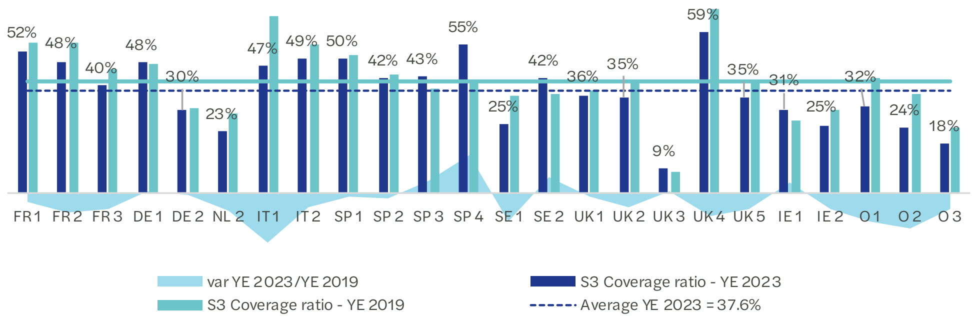
Graph 6.7: AC loans - Stage 1 coverage ratio - YE 2023 vs. YE 2019



Graph 6.8: AC loans - Stage 2 coverage ratio - YE 2023 vs. YE 2019



Graph 6.9: AC loans - Stage 3 coverage ratio - YE 2023 vs. YE 2019



Insights

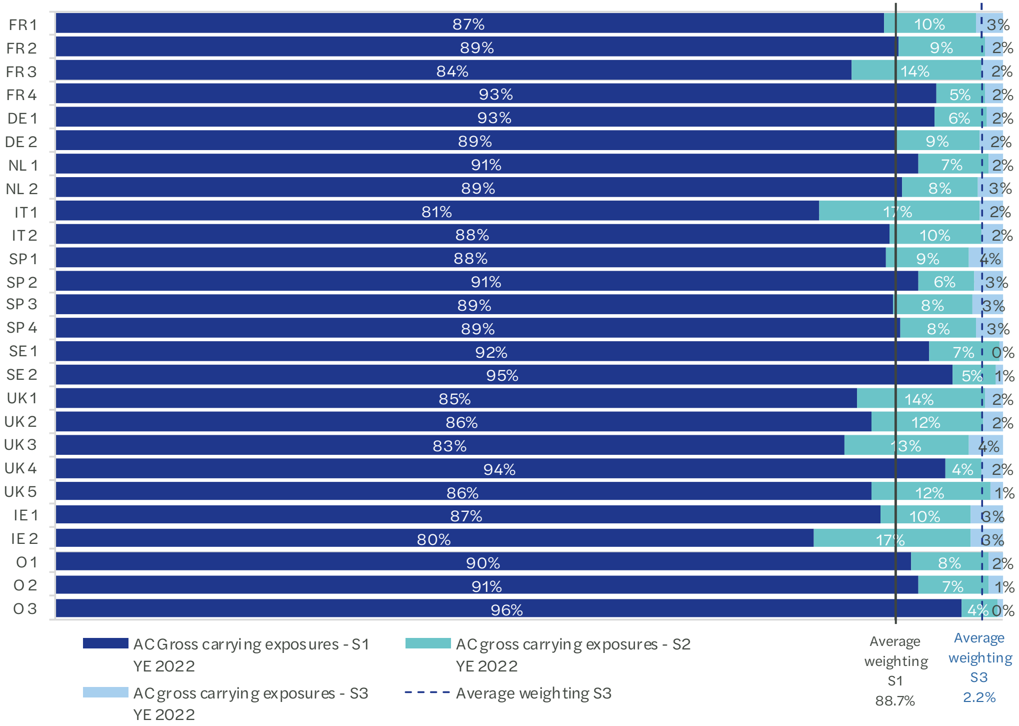
- The situations are contrasting for each stage of AC loan coverage ratio between YE 2019 and YE 2023:
  - Stage 1 and stage 2 AC loan coverage ratios increased by respectively 3 bps and 20 bps (which correspond to relative changes of 18% and 6%.)
  - Stage 3 AC loans coverage ratio decreased by 350 bps (9% in relative change.)

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 of the data used to calculate these metrics are explained above.

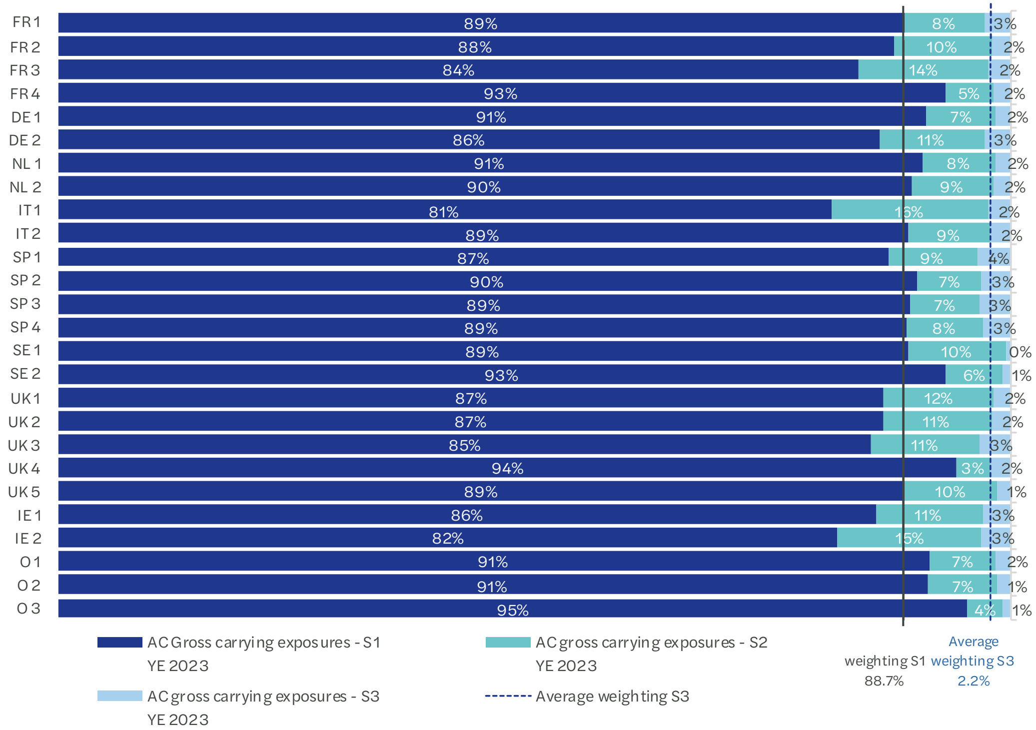
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.7 Breakdown of AC loans gross credit exposures by stage (YE 2023 vs. YE 2022)

Graph 7.1: Allocation by stage of AC loans gross carrying exposures in YE 2022



Graph 7.2: Allocation by stage of AC loans gross carrying exposures in YE 2023

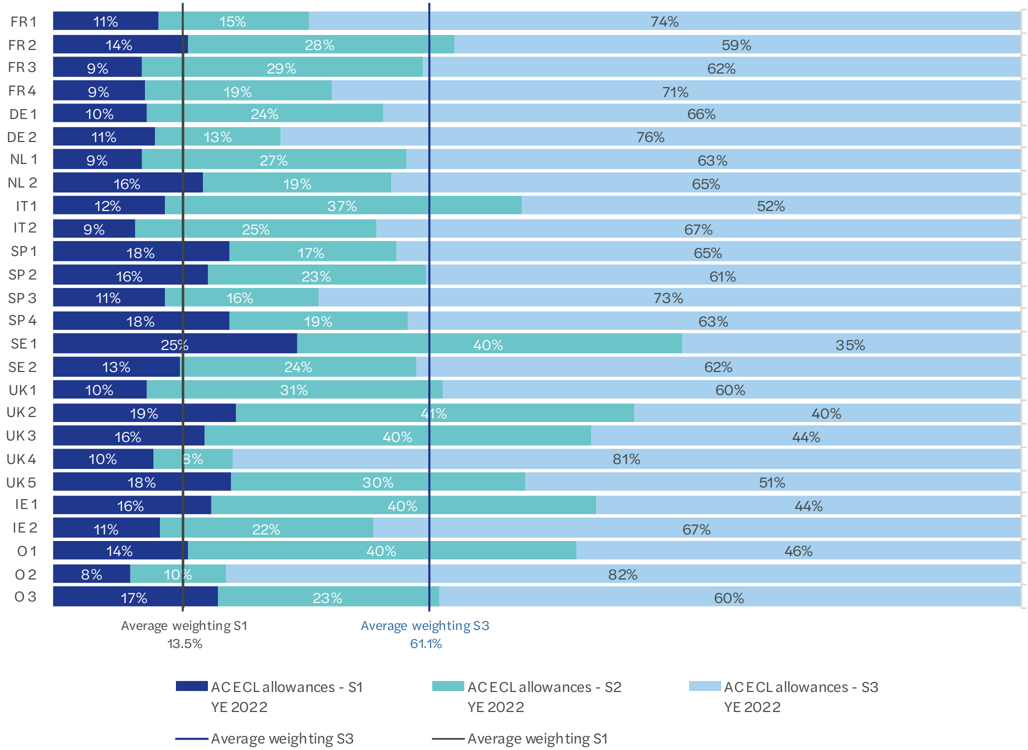


Some banks include POCI assets in their stage 3 figures. In addition, several banks provided a breakdown by stage for most of their asset classes, but not necessarily all asset classes. The allocations by stage, therefore, are not directly comparable between banks. The comparability of stage 3 weight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

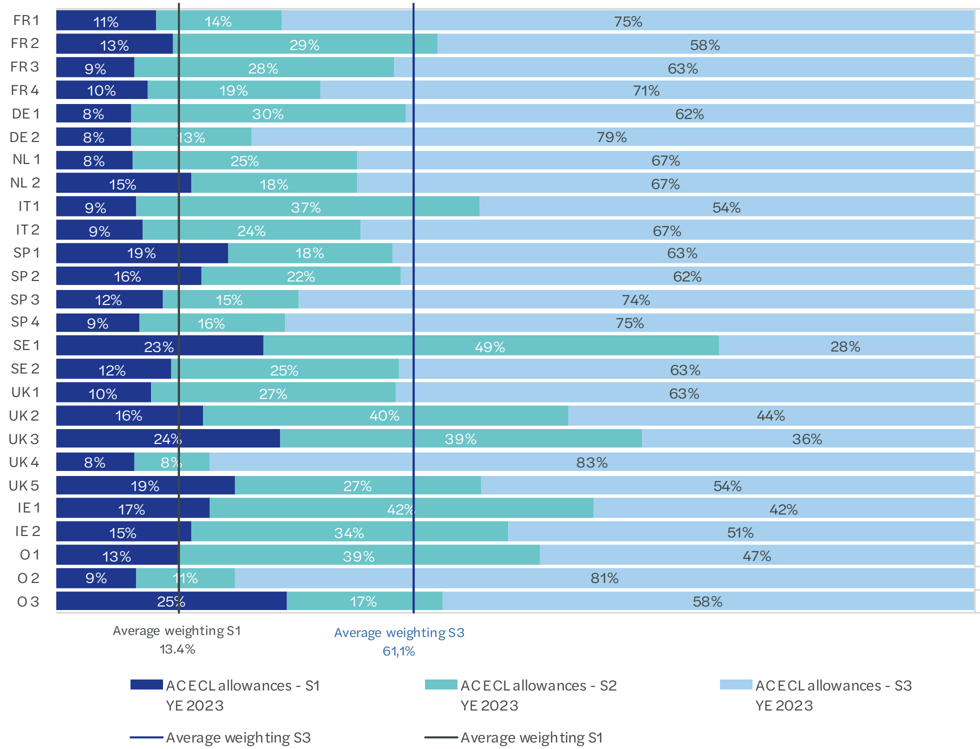
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.8 Breakdown of AC loans ECL allowances by stage (YE 2023 vs. YE 2022)

Graph 8.1: Allocation by stage of AC loans - ECL allowances in YE 2022



Graph 8.2: Allocation by stage of AC loans - ECL allowances in YE 2023

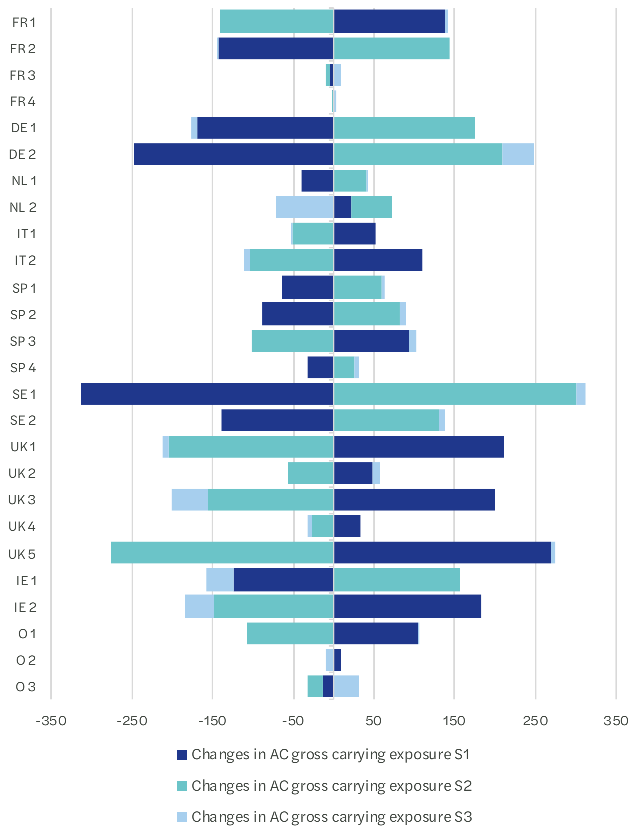


Some banks include POCI assets in their stage 3 figures. In addition, several banks provided a breakdown by stage for most of their asset classes, but not necessarily all asset classes. The allocations by stage, therefore, are not directly comparable between banks. The comparability of stage 3 weight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

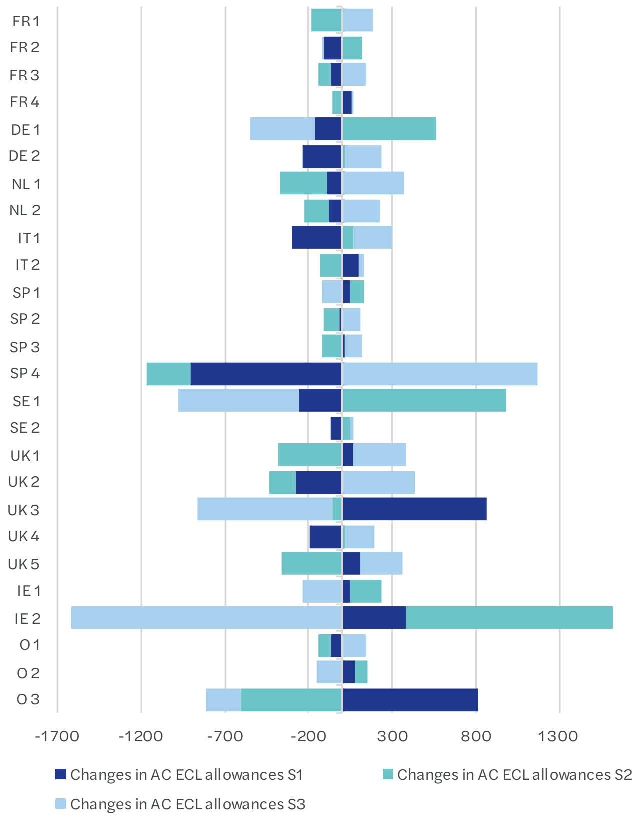
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.9 Breakdown of changes in AC loans gross credit exposure and ECL allowance by stage (YE 2023 vs. YE 2022)

Graph 9.1: Changes in AC loans - GCE by stage YE 2023 vs YE 2022 (bps)



Graph 9.2: Changes in ECL allowances by stage YE 2023 vs YE 2022 (bps)



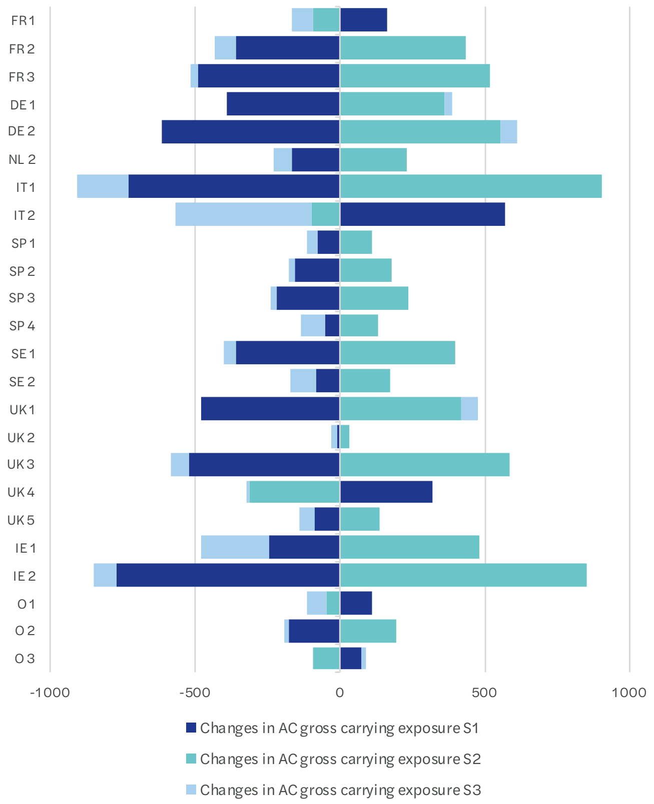
Insights

- No clear trend appears when comparing YE 2022 and YE 2023 regarding GCE and ECL allowances reallocation.
- As regards GCE allocation by stage, the sample is fairly balanced between two contradictory movements: banks generally either decreased their stage 1 GCE in favour of stage 2 and stage 3 (to a lesser extent) or increased their stage 1 to the detriment of stage 2 and stage 3.
- For ECL allowances allocation, most banks increased their stage 3 ECL allowances to the detriment of stage 1 and/or stage 2, but a few banks largely decreased their stage 3 in favour of stage 2 or stage 1.
- Although a clear trend seems difficult to identify compared to YE 2022, it is more obvious when comparing the stage allocation since YE 2019 (next slide.)

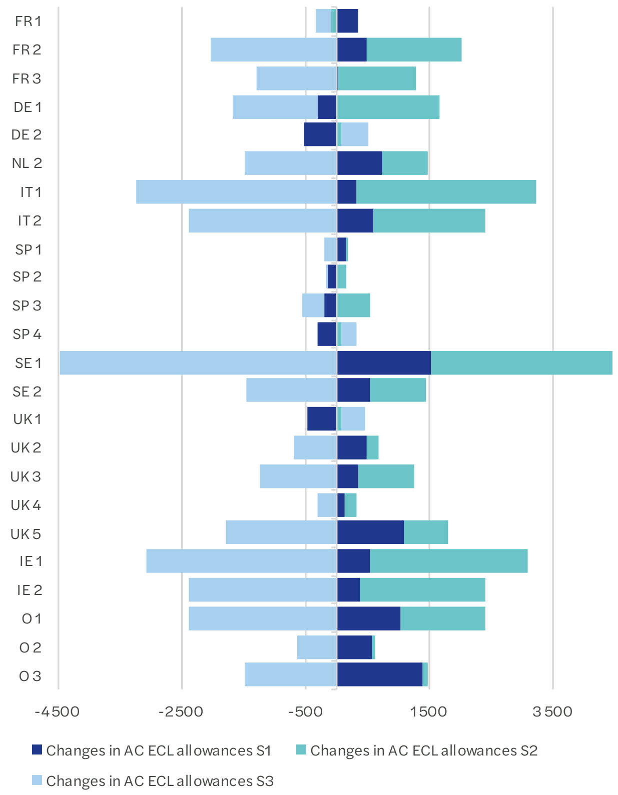
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.10 Breakdown of changes in AC loans gross credit exposure and ECL allowance by stage (YE 2023 vs. YE 2019)

Graph 9.3: Changes in AC loans - GCE by stage YE 2023 vs YE 2019 (bps)



Graph 9.4: Changes in ECL allowances by stage YE 2023 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 favour of stage 2 exposures.
- The changes in ECL allowances show a clear and homogeneous trend with a significant decrease of stage 3 in favour 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 almost tripled compared to the previous slide.

3. Key findings

3.3. Post-model adjustments/overlays

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

25

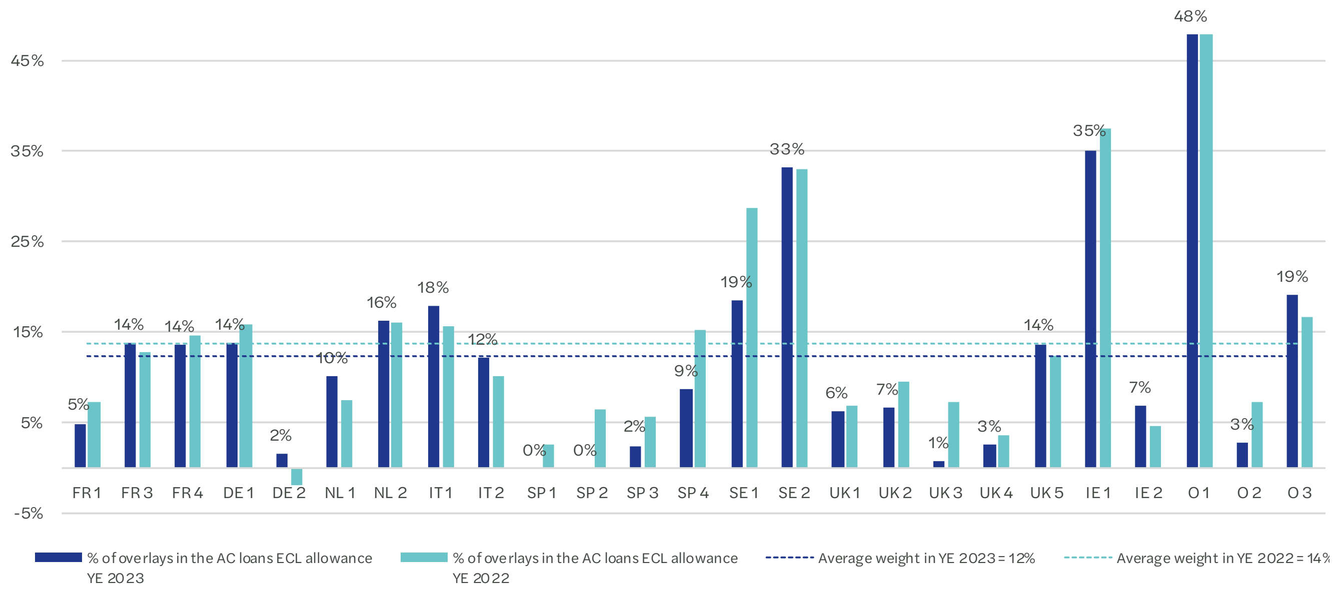
banks disclosed the amounts of their overlays or post-model adjustments in YE 2023 and YE 2022

100%

of the banks in the sample have a cumulative overlay that is an ECL charge

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 2023 is called the YE 2023 cumulative overlays.

Graph 10.1: Weight of cumulative overlays in AC loans ECL allowance YE 2023 vs YE 2022



Insights

- The average weight of cumulated overlays in AC loans ECL allowances stands at 12% on average in YE 2023 (14% in YE 2022.)
- The weightings in YE 2023 range from 0% to 48%. The most noticeable event in YE 2023 is the significant decrease of cumulated overlays for the Spanish banks, which all stand well below the average. SP 1 and SP 2 did not disclose their cumulated overlay amounts as they were not material.
- The underlying reasons for the overlay remained comparable to those observed in YE 2022. No new significant overlay had been reported in YE 2023 at a global level. Most significant overlays still relate to uncertainties in the macroeconomic environment, including higher inflation and interest rates or difficulties for the property sector.

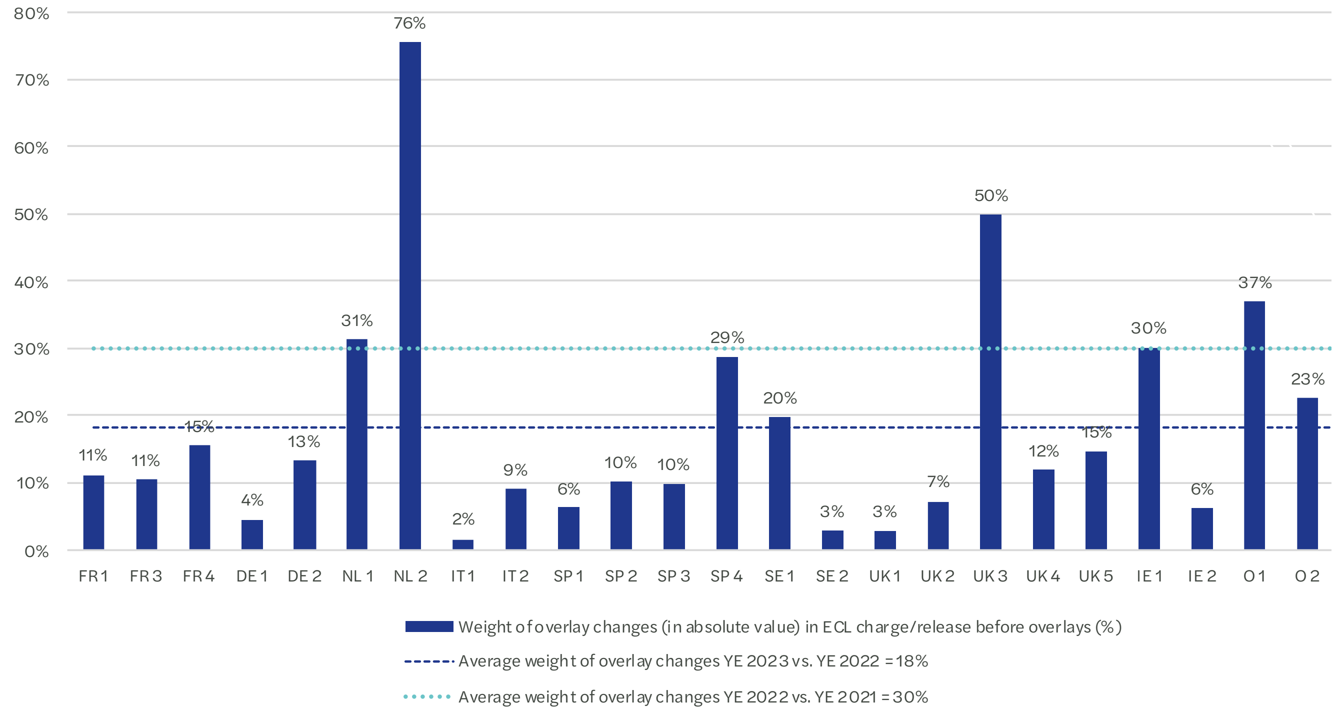
3.3. Post-model adjustments/overlays

3.3.2 Cumulative overlay changes

18%

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

Graph 10.2: Weight of cumulative overlay change (absolute value) in ECL charge/release before overlays (%) YE 2023 vs YE 2022



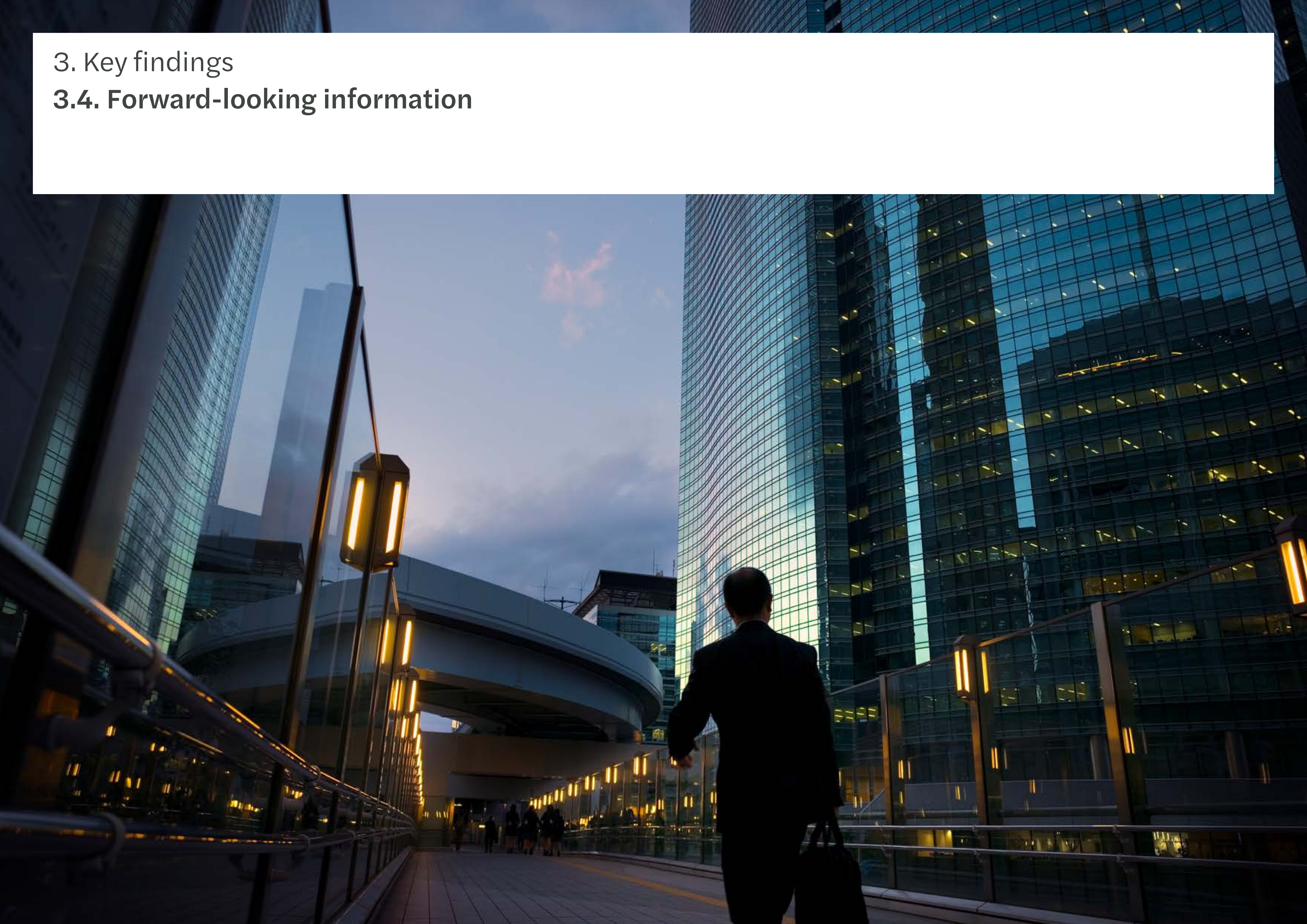
Insights

- The average weight of the change in overlays in ECL profit/loss before overlays decreased from 30% in YE 2022 to 18% in YE 2023.
- No cumulative overlay variation led to a change in the direction of the ECL profit/loss for the period (e.g. no ECL charge became an ECL release after taking into account the cumulative overlay change.)
- The decrease of the average weight of cumulative overlay change in the net ECL charge in YE 2023 is consistent with the decrease of the cumulated overlays in the balance sheet, in a general context of a decrease in ECL allowances in YE 2023.
- This trend is also explained for some banks by an integration of some of their previous overlays directly in their ECL models.

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 2023 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

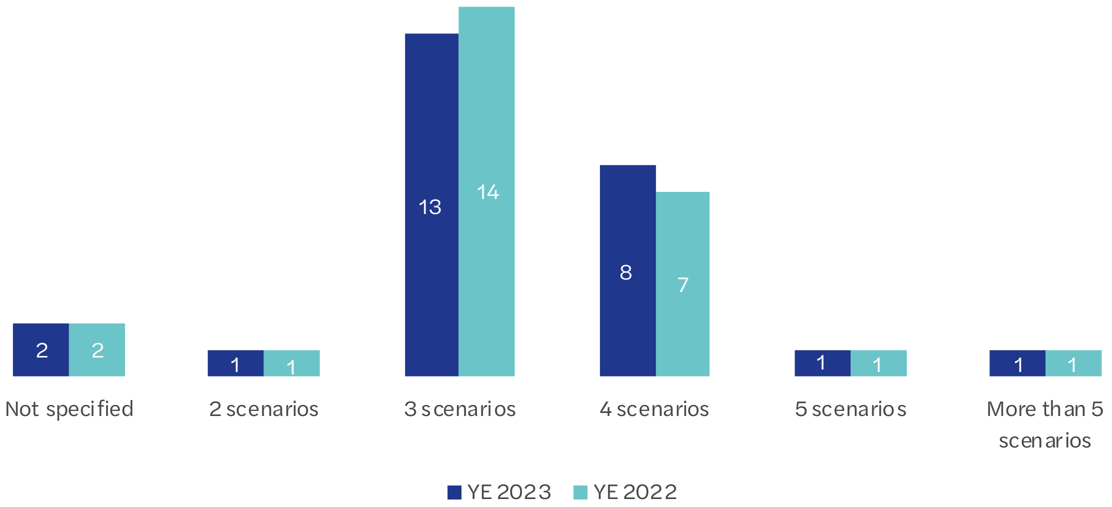
3.4. Forward-looking information



3.4. Forward-looking information

3.4.1 An overview of macro-economic scenarios

Graph 11.1: Number of macro-economic scenarios projected when calculating ECL



20

banks disclosed the weighting of each scenario in YE 2023 and YE 2022

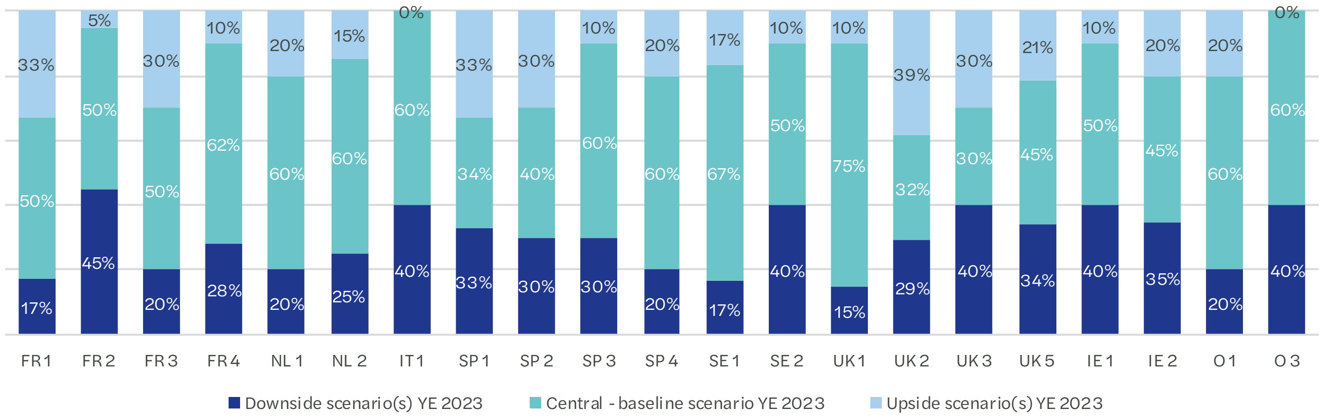
Insights

- 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.
- FR 1 implemented a new downside/severe scenario in 2023, now presenting four scenarios instead of three.
- 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.

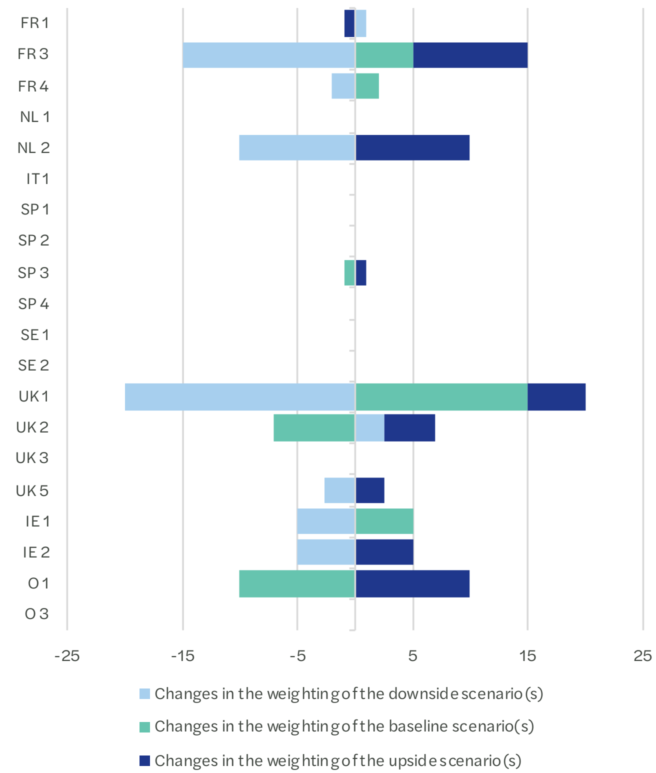
Scenario designations have been classified into three categories following the disclosed: the downside scenario (or severe), the baseline scenario (or central) and the upside scenario (or optimistic.) When the number of scenarios was above three, comprised of two downside scenarios, for instance, the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

3.4.2 Weightings of macro-economic scenarios

Graph 11.2: Weightings of the scenarios in YE 2023



Graph 11.3: Changes in the weightings of the scenarios YE 2023 vs YE 2022

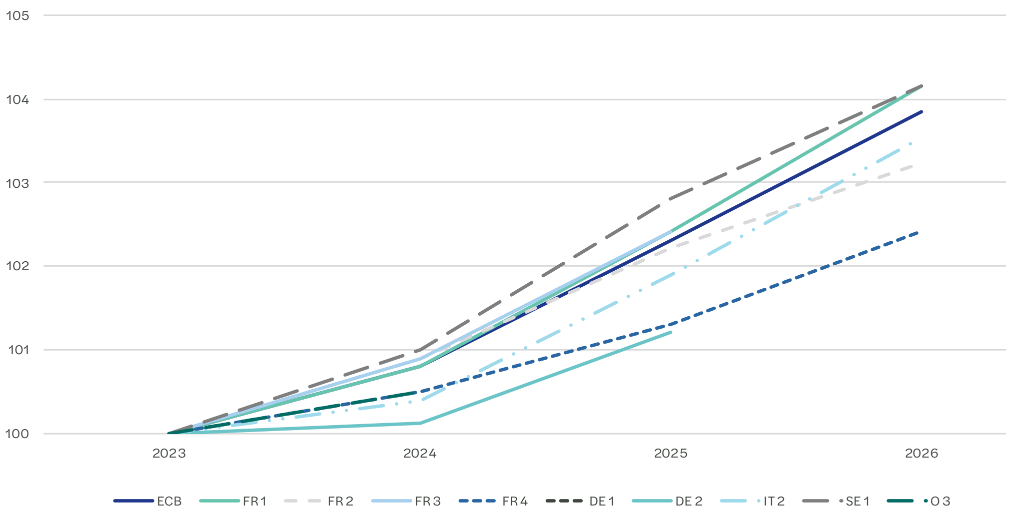


Insights

- The sample is quite heterogeneous regarding the weightings of each scenario (upside, baseline and downside) in YE 2023 – even within each country. However, Dutch and Irish banks show quite consistent weightings among them.
- Almost half of the sample (11 banks in YE 2023 vs seven banks in YE 2022) weighted their upside scenario(s) at or above 20%.
- On the other hand, 17 banks weighted their downside scenario(s) at or above 20% (18 banks in YE 2022.)
- Globally, banks seem more optimistic than they were one year ago, as they have changed the weightings of their positive or central scenarios upwards (could be moderated by change in the scenarios themselves.)
- 11 out of 20 banks changed the weightings of their scenarios between YE 2022 and YE 2023. An empty line in graph 12.3 means that the weightings are the same as in YE 2022.

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 11.4: Eurozone GDP growth assumptions YE 2023



Baseline scenario: Eurozone GDP growth				
	2023	2024	2025	2026
ECB	0.6%	0.8%	1.5%	1.5%
FR 1	0.5%	0.8%	1.6%	1.7%
FR 2	0.5%	0.9%	1.3%	1.0%
FR 3	0.7%	0.9%	1.5%	
FR 4		0.5%	0.8%	1.1%
DE 1	0.0%			
DE 2	0.5%	0.1%	1.1%	
IT 2	0.4%	0.4%	1.5%	1.6%
SE 1	0.4%	1.0%	1.8%	1.3%
O 3		0.5%	2.9%	

■ 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)

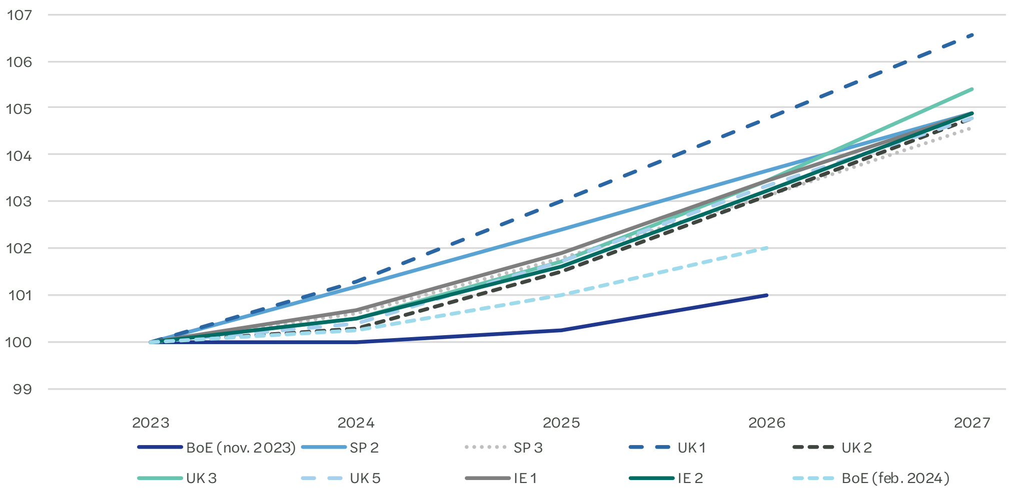
Insights

- The banks are globally close to the ECB projections, being either slightly more optimistic or pessimistic. FR 4 and DE 2 stand out as they are much more conservative than the ECB and other banks.
- DE 1 reported a 'moderately increasing' GDP for 2025-2026 but did not provide any figures for those years.
- The range of the assumptions is tighter than at YE 2022:
  - For 2024, the range goes from 0.1% (DE 2) to 1.0% (SE 1.)
  - For 2025, the range goes from 0.8% (FR 4) to 1.8% (FR 1 and SE 1.)

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 2023 (source: https://www.ecb.europa.eu/mopo/devel/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 = 2023.) O 3 bank is an exception as the growth rate disclosed for 2025 and 2026 is a three-year cumulative growth rate for the period 2024-2026 (including 0.5% expected for 2024.)

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 11.5: UK GDP growth assumptions YE 2023



Baseline scenario: Eurozone GDP growth					
	2023	2024	2025	2026	2027
Bank of England (nov. 2023)	0.5%	0.0%	0.3%	0.8%	
SP 2		1.2%	1.2%	1.2%	1.2%
SP 3		0.6%	1.2%	1.3%	1.4%
UK 1	-0.8%	1.3%	1.7%	1.7%	1.7%
UK 2	0.5%	0.3%	1.2%	1.6%	1.6%
UK 3	0.3%	0.5%	1.2%	1.7%	1.9%
UK 5	0.5%	0.4%	1.3%	1.6%	1.4%
IE 1	0.5%	0.7%	1.2%	1.5%	1.4%
IE 2		0.5%	1.1%	1.6%	1.6%
Bank of England (feb. 2024)	0.3%	0.3%	0.8%	1.0%	

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)

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 all the banks. UK 1 stands out however as it shows much more optimism than the other banks.
- Because of the gap between BoE projections and the assumptions of the relevant banks of the sample, we considered both November 2023 and February 2024 Monetary Policy Reports to understand if this gap could be due to a timing difference in the development of the projections.
  - Despite greater convergence between the BoE and the panel banks from the February 2024 report onwards, the banks' GDP growth assumptions remain significantly more optimistic than those of the BoE.

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 2023 and February 2024, Table 1. B (source: https://www.bankofengland.co.uk/monetary-policy-report/monetary-policy-report.) The chart presents the annual GDP growth rate for each year, whereas the graph presents the cumulative GDP growth rate (index base 100 = 2023.) SP 2 uses a global average GDP growth rate for the period 2024-2026. IE 2 uses a global average GDP growth rate for the period 2026-2028. We have assumed for these banks a constant annual GDP growth rate.

3. Key findings

3.5. Other topics

3.5.2 Irrevocable payment commitments ('IPC') – Single Resolution Fund

13

banks disclosed information about Irrevocable Payment Commitments they have

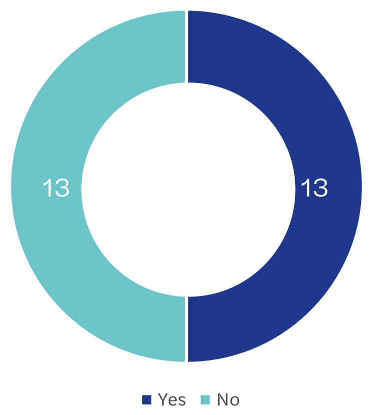
13

banks disclosed their amounts of IPC

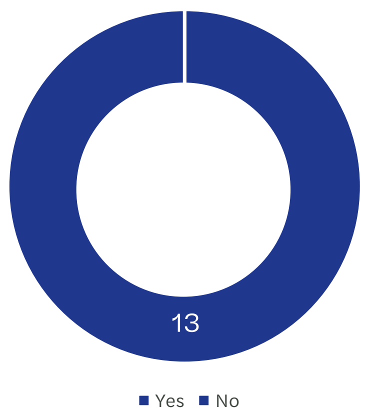
0

bank booked a provision related to those IPC

Graph 12.1: Banks disclosing information about IPC in their financial statements



Graph 12.2: Banks disclosing IPC amounts in their financial statements



Insights

- Almost all the banks supervised by the ECB have provided information about their IPC (i.e. French, German, Dutch, Italian and Spanish banks.) All the banks that mentioned their IPC also disclosed their total IPC amounts:
  - SP 1 and SP 2 indicated that their IPC amounts were not significant.
  - IT 1 recognises all the annual amounts due in respect of their contribution to the SRF in P&L without using the IPC mechanism.
  - SP 3 is the only bank under ECB supervision not to have given any information, which may raise questions about the materiality of the amounts at stake (or if the bank effectively uses this IPC mechanism.)
- The other panel banks are under the authority of other supervisory bodies because they are not in the Eurozone and are therefore not concerned.
- None of the banks has booked a provision for a potential payment of these IPCs.

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