Financial reporting of European banks

A focus on expected credit losses

Based on 2024 annual reports provided by European banks before 1 April 2025

forvis mazars

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1. Executive summary

As European banks enter 2025, they face rising economic uncertainty linked to renewed U.S. tariffs. While these measures have not yet impacted 2024 financials, they raise prospective concerns about global trade disruptions and their potential to weigh on credit quality and investment. Banks appear nonetheless well-positioned to weather these risks, with credit risk metrics currently at historically low levels. The most notable results from year-end (YE) 2024 are:

- A global decrease in the net ECL charge in profit or loss and in the ECL allowances on the balance sheet compared to YE 2023 (–6.3% in ECL allowances between YE 2023 and YE 2024.)
- An average amortised cost loan coverage ratio that decreased compared to 2023 (1.26% in YE 2024 vs 1.36% in YE 2023) and 2019 (1.57% in YE 2019), which is visible for Stage 2 and Stage 3, whereas Stage 1 remains stable.
- A weight of post-model adjustments/overlays in ECL charge/release and in the balance sheet that has continued to decrease since YE 2021 (10% of the loss allowances in YE 2024 vs 12% in YE 2023 and 16% in YE 2021.)

-8%

change in average ECL charge/profit YE 2024 vs YE 2023

(-3% YE 2023 vs. YE 2022)

10%

weight of cumulative overlays in AC loans ECL allowance YE 2024

(12% YE 2023)

12%

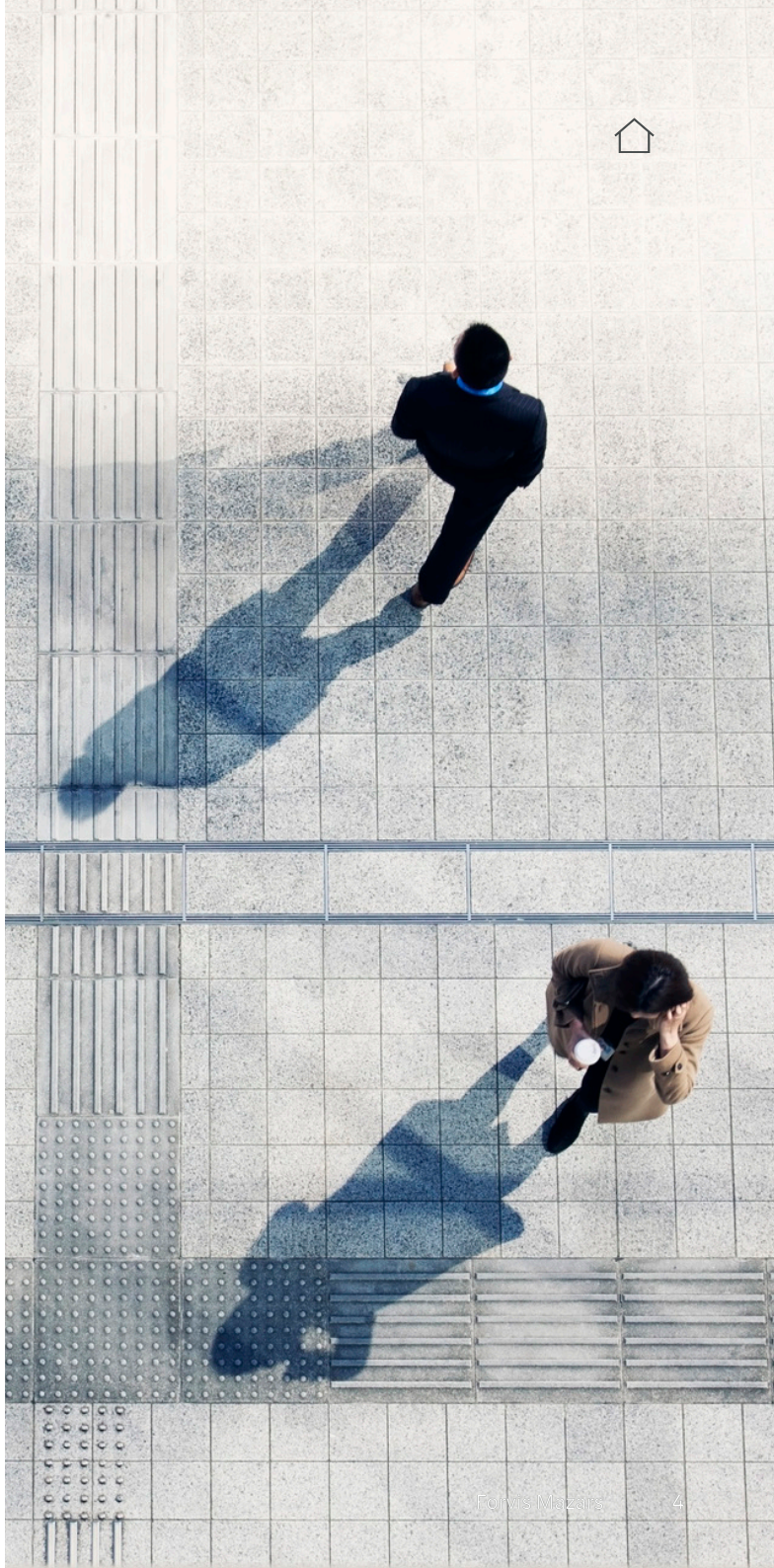
average share of ECL charge in operating profit or loss before ECL in YE 2024

(16% YE 2023)

27%

average weight of change in the post-model adjustments in the ECL P&L impact in YE 2024

(18% YE 2023 and 30% in YE 2022)



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.

Graphs that use figures requiring 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.

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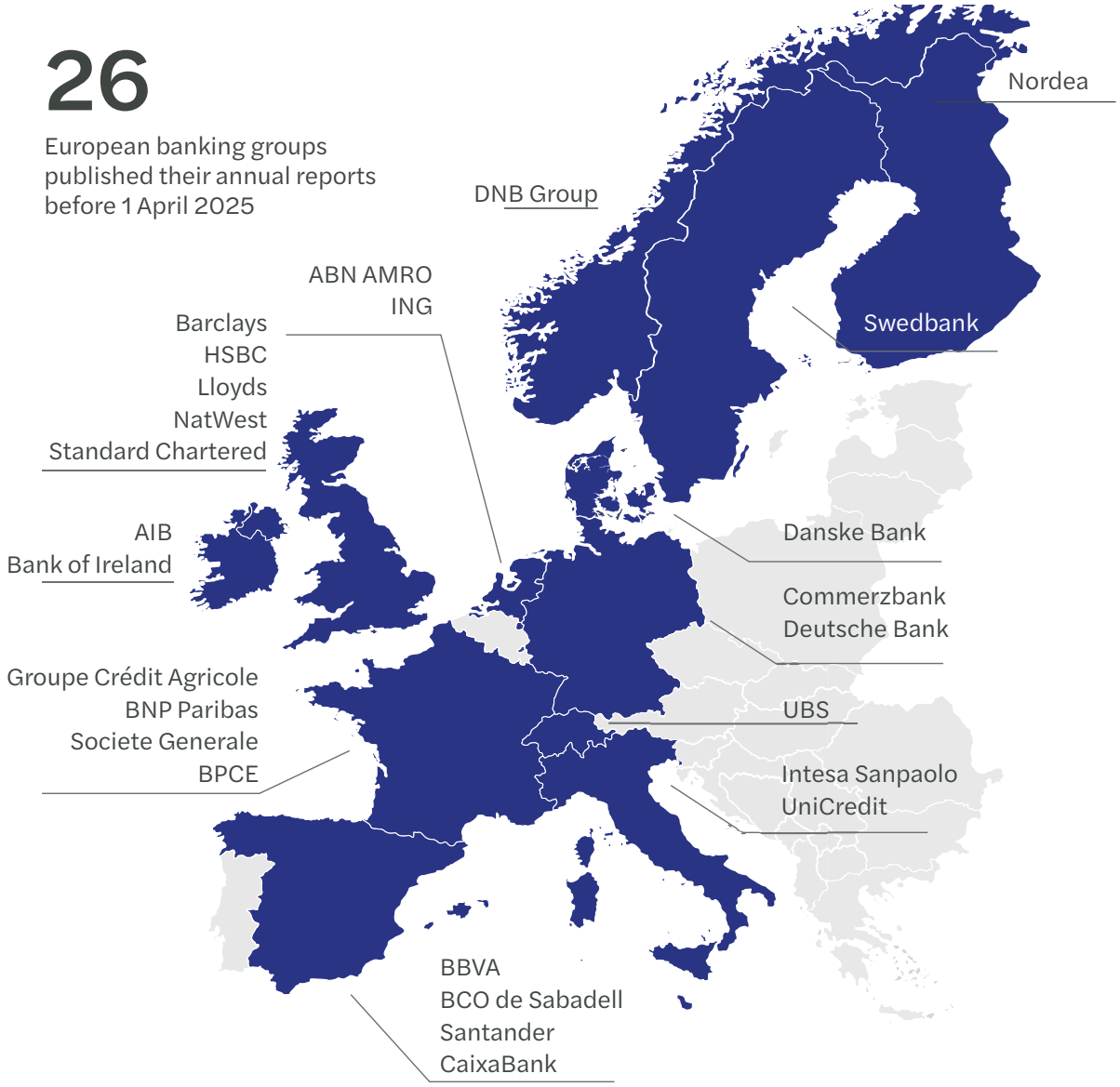
European banking groups published their annual reports before 1 April 2025

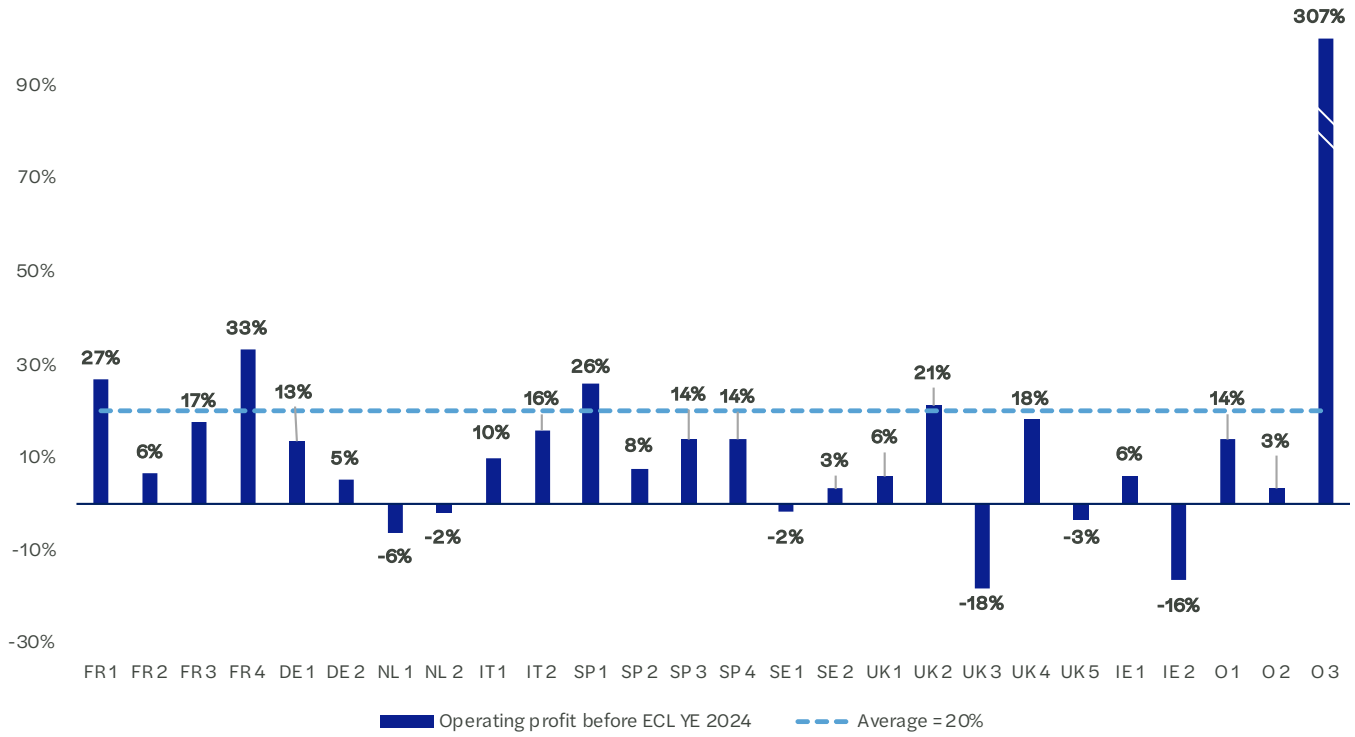


3.1. ECL charge impact of YE 2024 on the profit or loss and ECL allowances

3.1. Impact of the YE 2024 ECL charge on profit or loss and ECL allowance

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 2024 vs YE 2023)



Insights

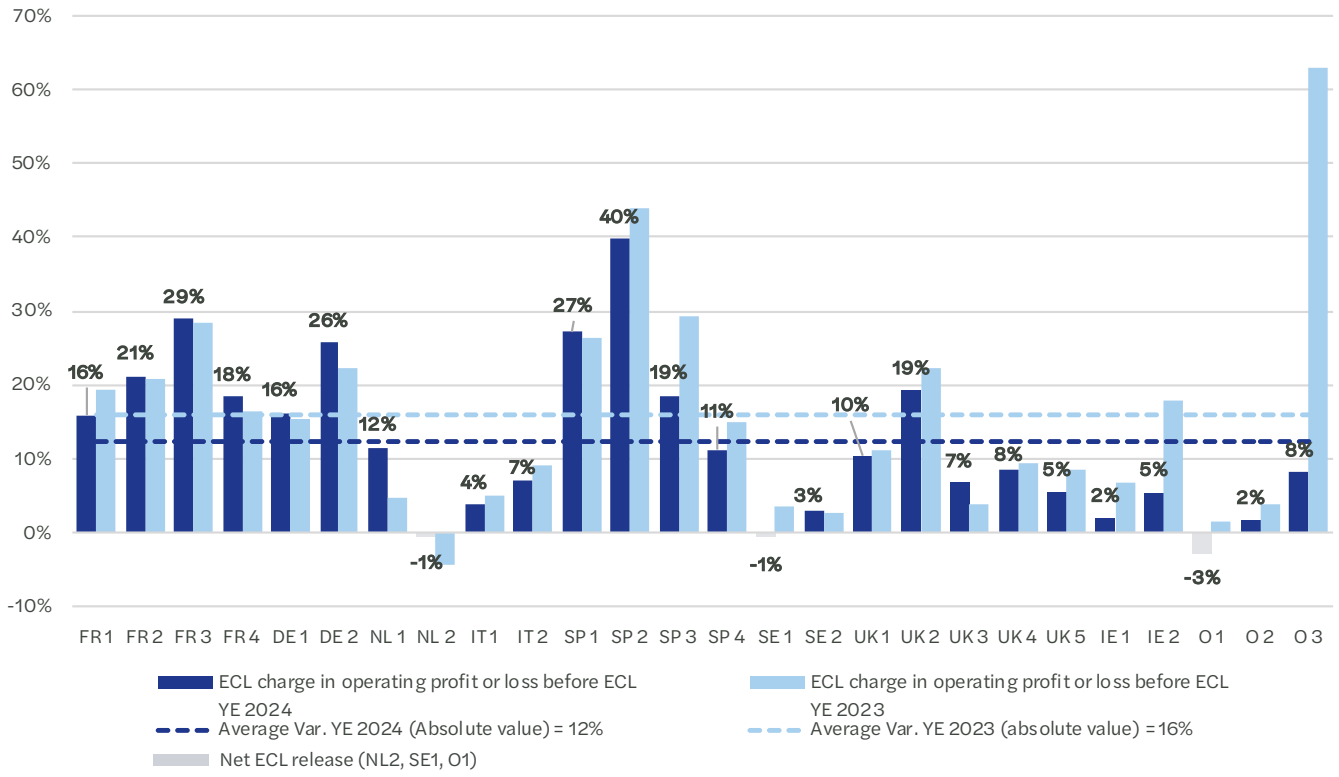
- 20 banks in the sample experienced positive growth in their operating profit or loss before the ECL charge.
- Six banks experienced a decrease in their operating profit or loss before the ECL charge, though overall profitability remained positive for all banks.
- The increase in O 3's operating profit can be explained by a relatively low amount in YE 2023, in the context of a significant acquisition in 2023. Excluding this value from the sample, the average variation would rise to 9%.

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, 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. Impact of the YE 2024 ECL charge on profit or loss and ECL allowance

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

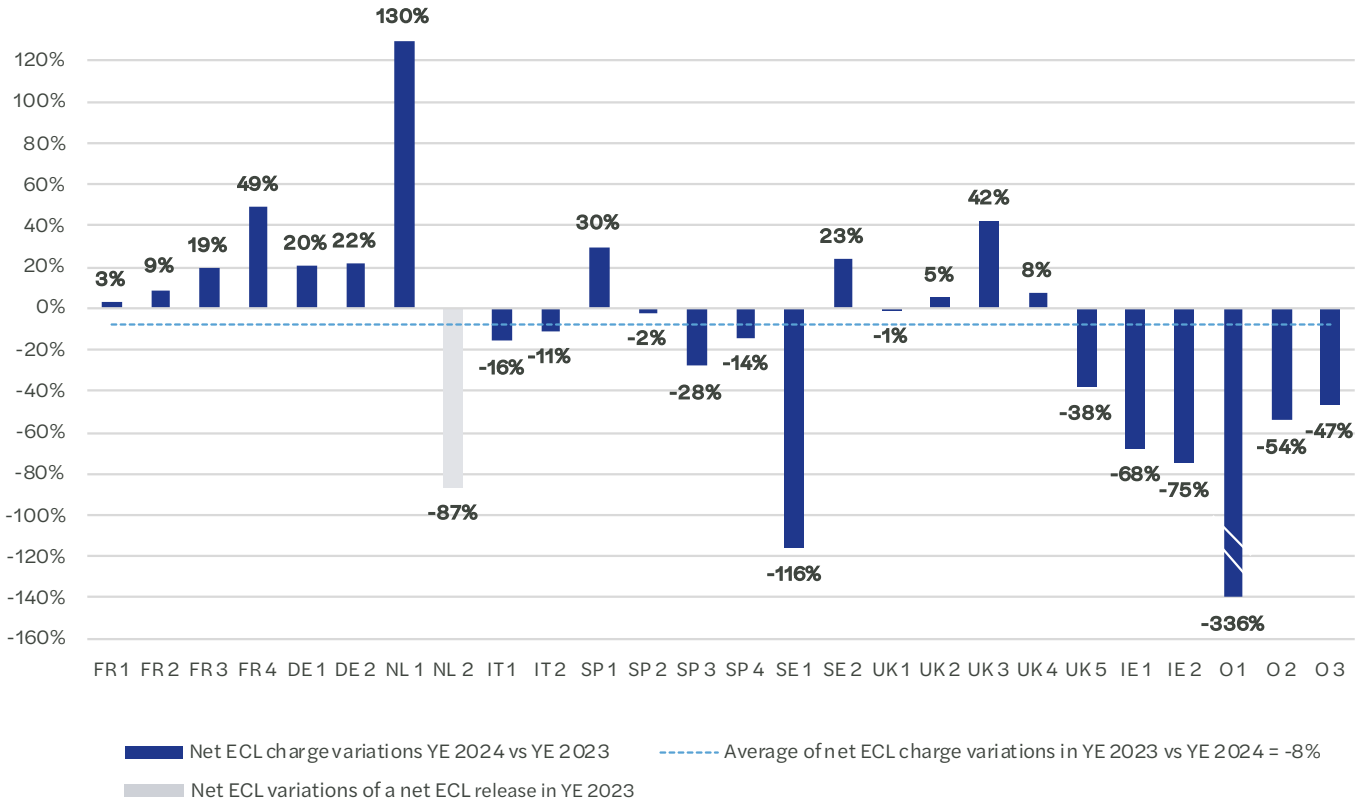
- The average ratio of the ECL charge to operating profit or loss before the ECL charge decreased to 12% in YE 2024 (vs 16% in YE 2023.)
- In YE 2024, the median amounted to 9% (13% in YE 2023) with a range from -3% to 40%.
- At YE 2024, all banks in the sample, except NL 2, SE 1 and O 1, had a net ECL charge in operating profit or loss before ECL In YE 2023, all banks in the sample except NL 2 had a net ECL charge.
- For O 3, the significant share of ECL charge in YE 2023 could potentially be explained by the acquisition of a bank in a situation of pronounced losses in H1 2023. This impact no longer appears in the YE 2024 figures.

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 2024 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 2024 vs YE 2023



Insights

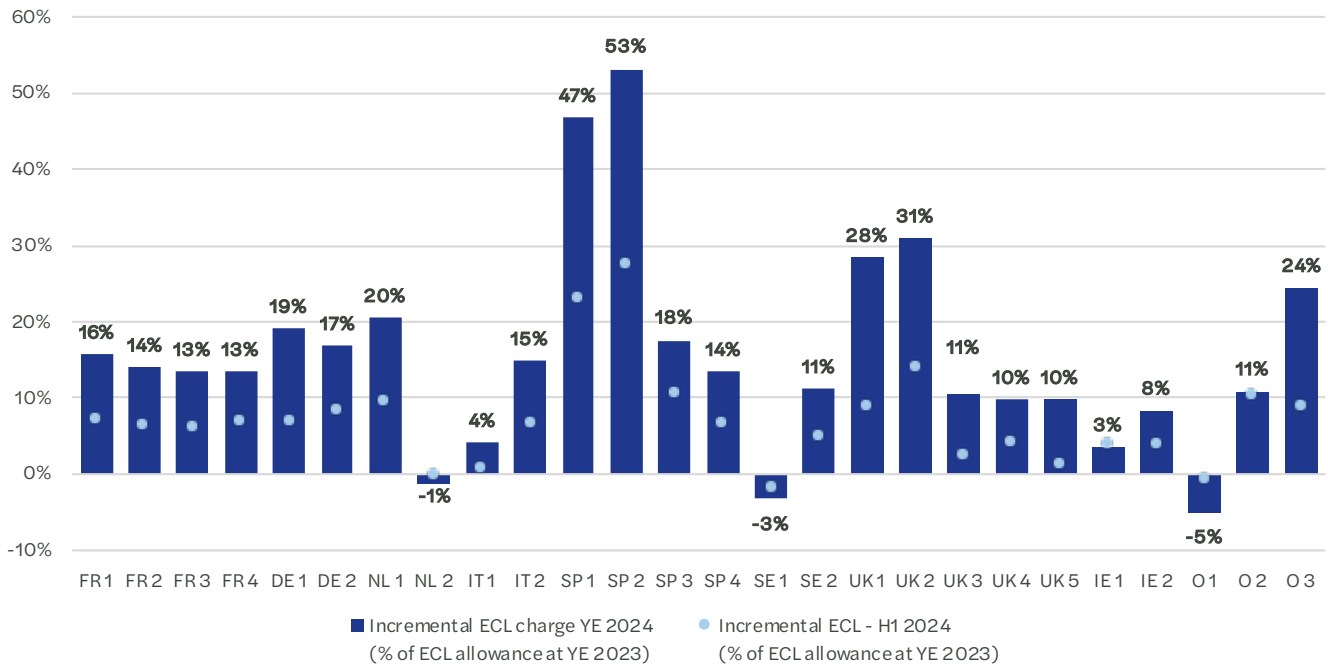
- Positive percentage values indicate an increase in the net ECL charge in YE 2024 compared to YE 2023.
- A decrease of more than 100% means an ECL release in YE 2024 compared to a net ECL charge in YE 2023 (SE 1 and O1.)
- NL 2 is an exception as it was already in a situation of a net ECL release in YE 2023. The value of -87% means that there is still an ECL release in YE 2024, although for a lower amount.
- In YE 2024, the sample is relatively balanced between banks that have seen an increase in their ECL charge (twelve banks) and those that have seen a decrease (14 banks.)
- The average change in ECL results in a decrease of -8% but the situations of EU banks are fairly diverse.
- O 1 value is not represented in the average because of an irrelevant value (-336%.)
- Situations in YE 2024 are still quite diverse and do not allow for the identification of any major geographical trend compared to previous years.

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 2024 and YE 2023. 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 2024 on the profit or loss and ECL allowances

3.1.4 Incremental ECL (% of ECL allowances)

Graph 4: Incremental ECL (charge at YE 2024 expressed as a % of ECL allowance at YE 2023 charge at H1 2024 expressed as a % of ECL allowance at YE 2023)

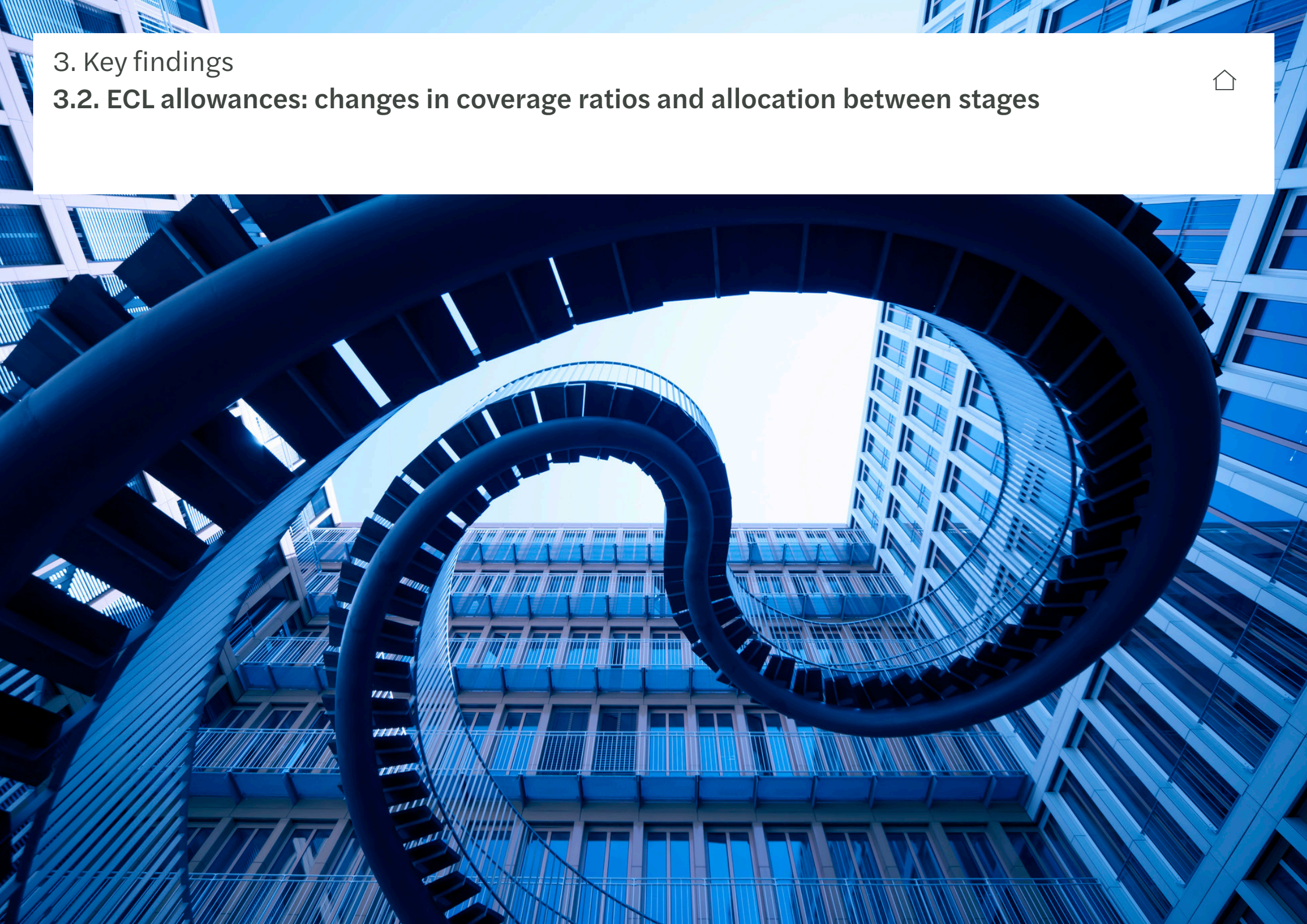


Insights

- The range of incremental ECL allowances is narrower, spanning from -5% to 53%, compared to a broader range of -23% to 95% in YE 2023.
- Overall, we observe a continuation of the trend identified in YE 2023, with a more balanced distribution of the ECL charge throughout the year.
- The most notable exceptions are IT 1, UK 5, IE 1, O 1 and O 2:
  - IT 1, UK 5 and O 1 did not show significant movements in their net ECL charge or release during H1 2024. In H2 2024, IT 1 and UK 5 endowed almost all their ECL charge, while O 1 released nearly all its ECL profit.
  - On the other hand, IE 1 and O 2 endowed almost all their annual net ECL charge from H1 2024 and did not adjust these amounts significantly in H2 2024.

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 2024.

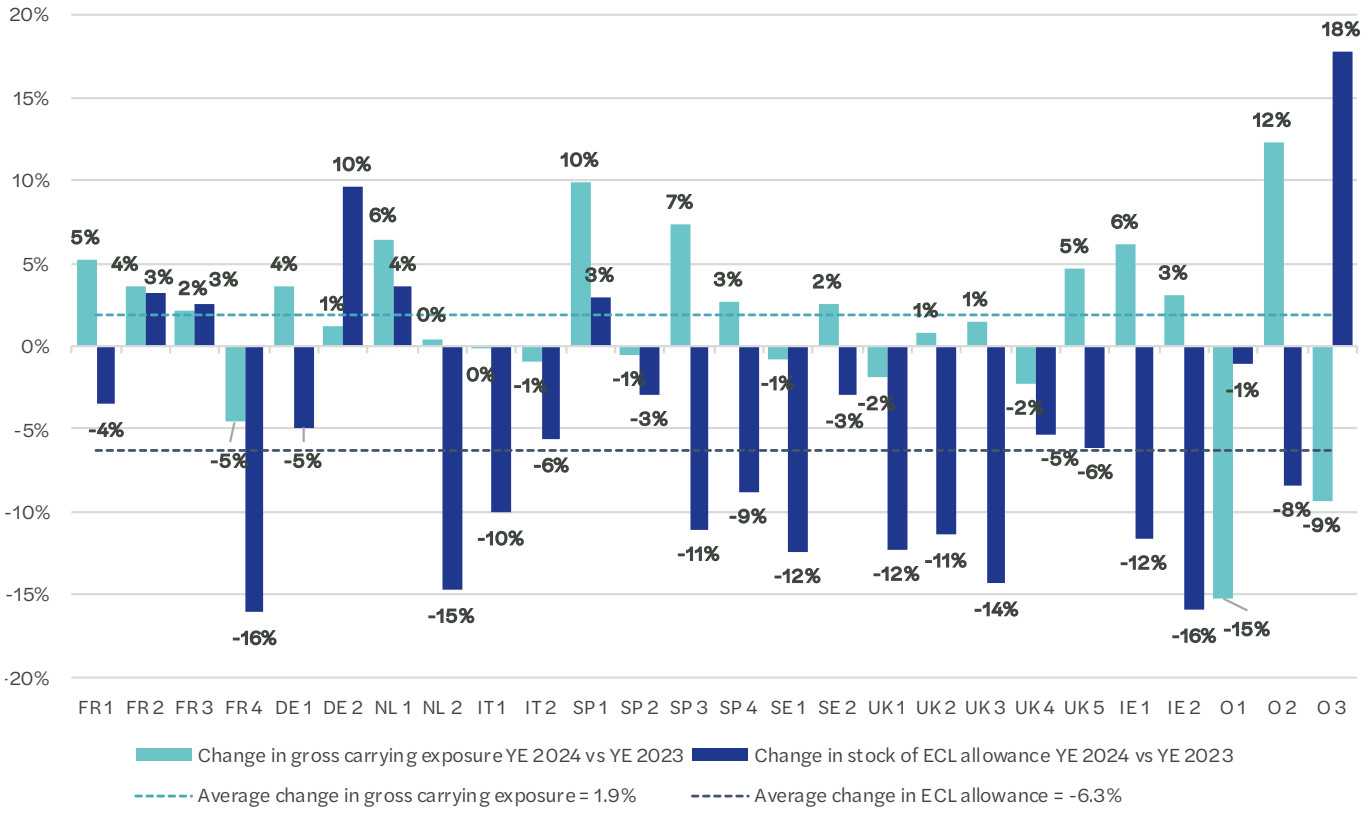
3.2. ECL allowances: changes in coverage ratios and allocation between stages



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 2024 compared to YE 2023



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.

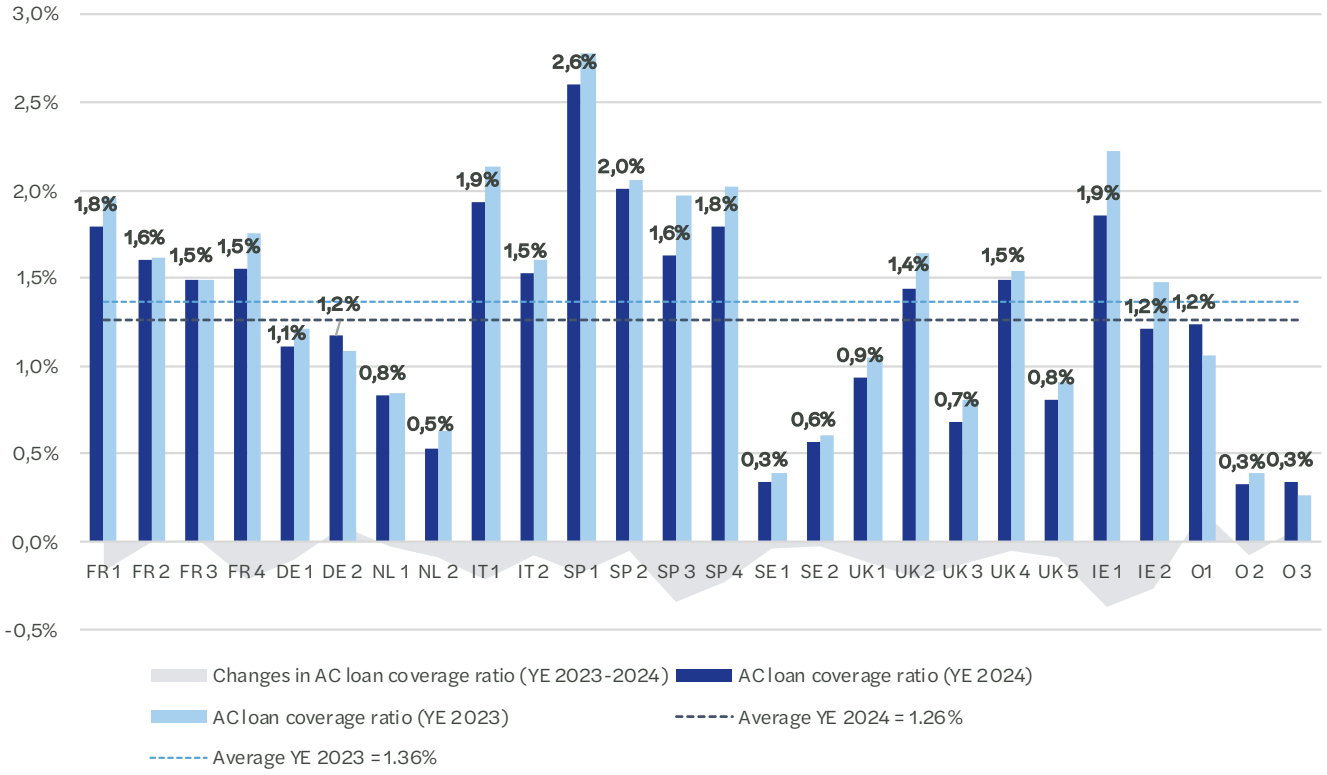
Insights

- Globally gross credit exposures slightly increased on average (+1.9%) but within quite a large range (from -15% to +12%.) ECL allowances show a different trend as they decreased by -6.3% with a comparable range (from -16% to +18%.)
- Most banks (20 out of 26) experienced a decrease in their ECL allowances:
  - For most of them, this decrease was proportionally greater than the change in GCE.
  - This may raise questions as only NL 2, SE 1 and O 1 showed a net ECL release in YE 2024 (see previous slides.)
- Situations where banks have both a net ECL charge in YE 2024 and a decrease in their ECL allowance on the balance sheet can be explained by write-offs / disposals of loans that are generally heavily-impaired exposures. This is for example the case for Irish and UK banks (UK 1 to UK 3) and SP 3.
- FR 4 is an exception, as the decrease in their ECL allowance is mainly due to a reclassification of financial assets held for sale on a separate line in the balance sheet, in accordance with IFRS 5.
- The increase of ECL allowance for O 3 combined with a decrease in the GCE is due to transfers between the stages of ECL that are only partially offset by write-offs.

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

3.2.2 ECL coverage ratios of AC loans (YE 2024 vs. YE 2023)

Graph 6.1: AC loans coverage ratio YE 2024 vs. YE 2023



Insights

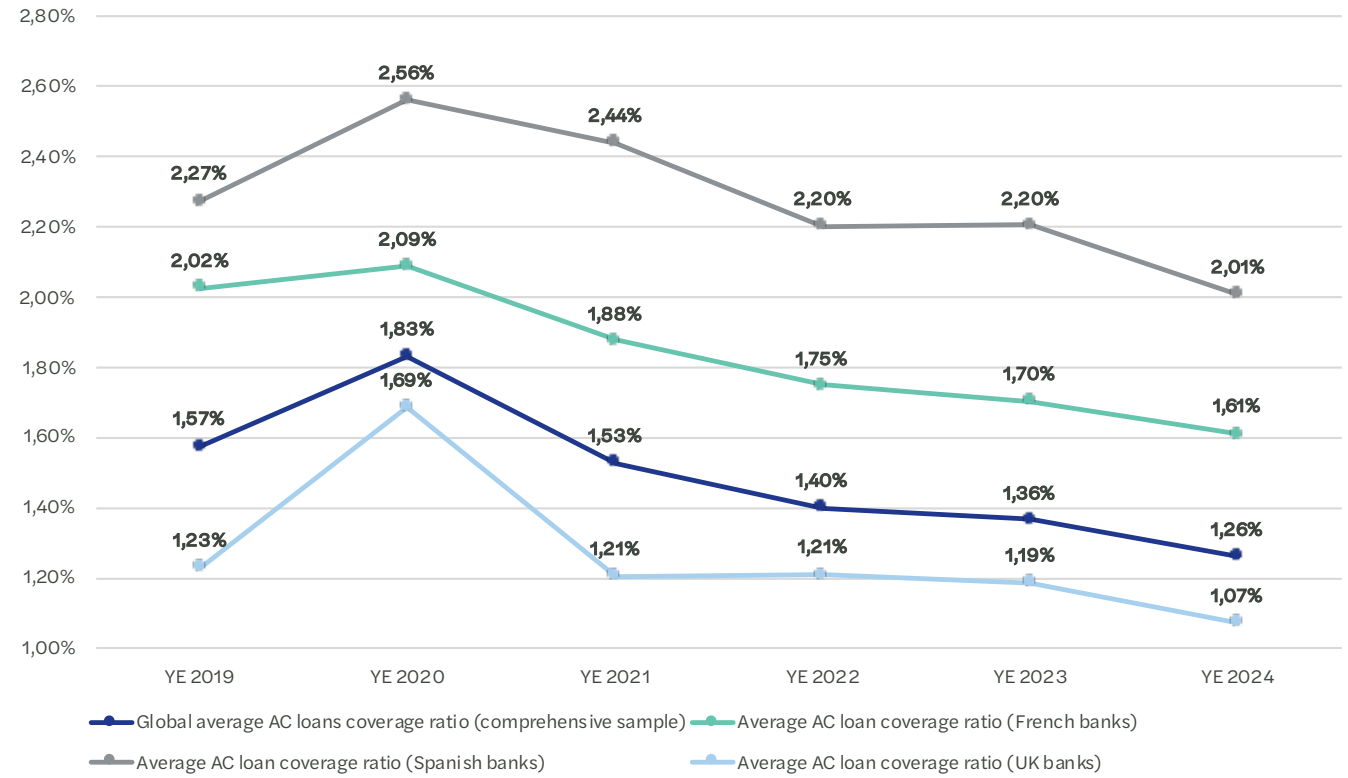
- The average ECL coverage ratio of AC loans is 1.26% in YE 2024 (1.36% in YE 2023.)
- Most banks (23) show a decrease in their coverage ratio.
- We continue to observe significant diversity in the levels of the global ECL coverage ratio, although the gap has been continuously narrowing since YE 2020 (between 0.3% and 2.6% in YE 2024 compared to 0.3% to 4.2% in YE 2020.)
- As for YE 2023, there is fairly good consistency in each country: French banks and Italian banks are above the average with similar ratios. Spanish banks also stand above the average, but with slightly higher coverage ratios. Dutch, Swedish and German banks are below the average with consistent ratios within each of these countries.
- 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 0.8%, and the other one being composed of UK 2 and UK 4 that are above the average at 1.5%.

Note: Loans at amortised cost encompass the loans granted to banks and public/retail customers that are accounted for at amortised cost (AC.) We computed the ECL coverage ratio of AC loans for each bank by dividing the ECL allowance of AC loans by the gross credit exposure of AC loans only. We have tried to be as consistent as possible given the information disclosed. Several banks do not disclose enough information to enable the calculation of this ratio. The comparison of quantitative findings should be examined with caution due to the differing natures and risk profiles of bank portfolios. 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 2024



Insights

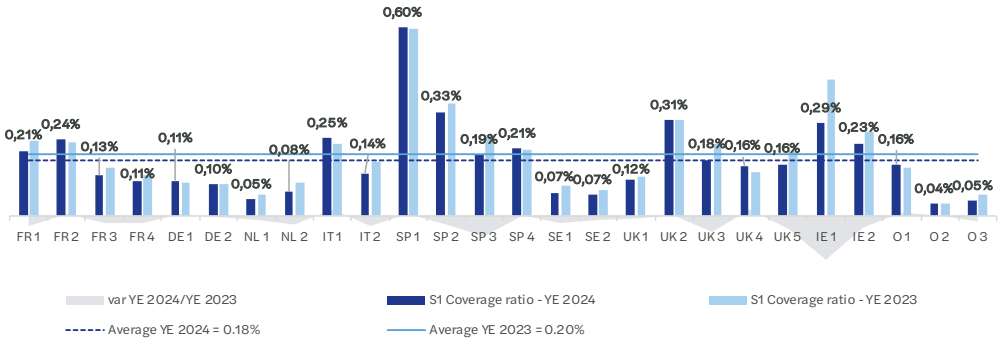
- We have considered the changes in ECL coverage ratios for French, Spanish and UK banks as they are the most represented countries in the panel (13 banks.)
- All banks globally show a similar trend with an increase in 2020 followed by a decrease starting from 2021. All banks are now below their pre-Covid level, although to different degrees depending on the countries.
- If we compare the situation in YE 2024 to the situation in YE 2019, we note that the global average ECL coverage ratio of AC loans for all banks has decreased from 1.57% to 1.26%.
- This reduction was more marked for French banks, whose average coverage ratio fell from 2.02% to 1.61%, showing a coverage ratio 41 bp lower than in 2019 (compared with 26 bp for Spanish banks and 16 bp for UK banks.) However, the French average coverage ratio still remains 35 bp above the sample average.

Note: 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 do not disclose enough information to enable the calculation of this ratio. The comparison of quantitative findings should be examined with caution due to the differing natures and risk profiles of bank portfolios. 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.

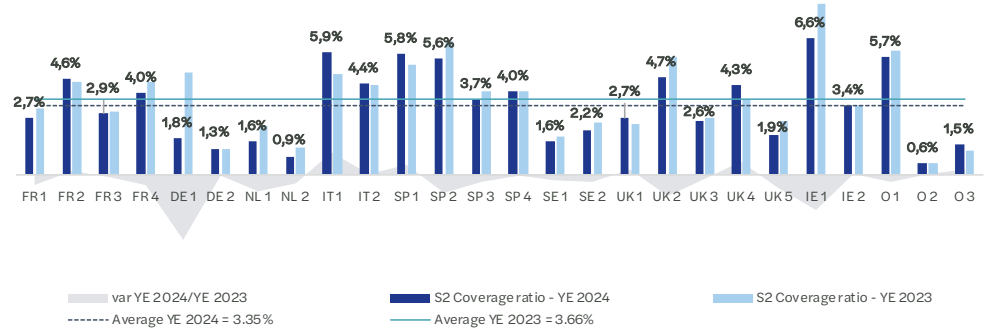
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.4 AC loans: coverage ratio broken down by stage (YE 2024 vs. YE 2023)

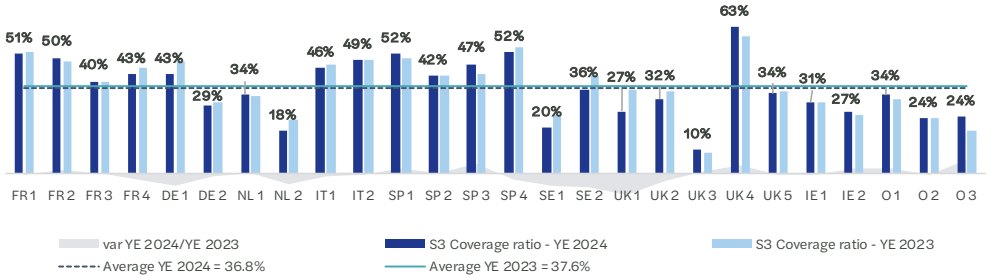
Graph 6.3: AC loans - Stage 1 coverage ratio - YE 2024 vs. YE 2023



Graph 6.4: AC loans - Stage 2 coverage ratio - YE 2024 vs. YE 2023



Graph 6.5: AC loans - Stage 3 coverage ratio - YE 2024 vs. YE 2023



Insights

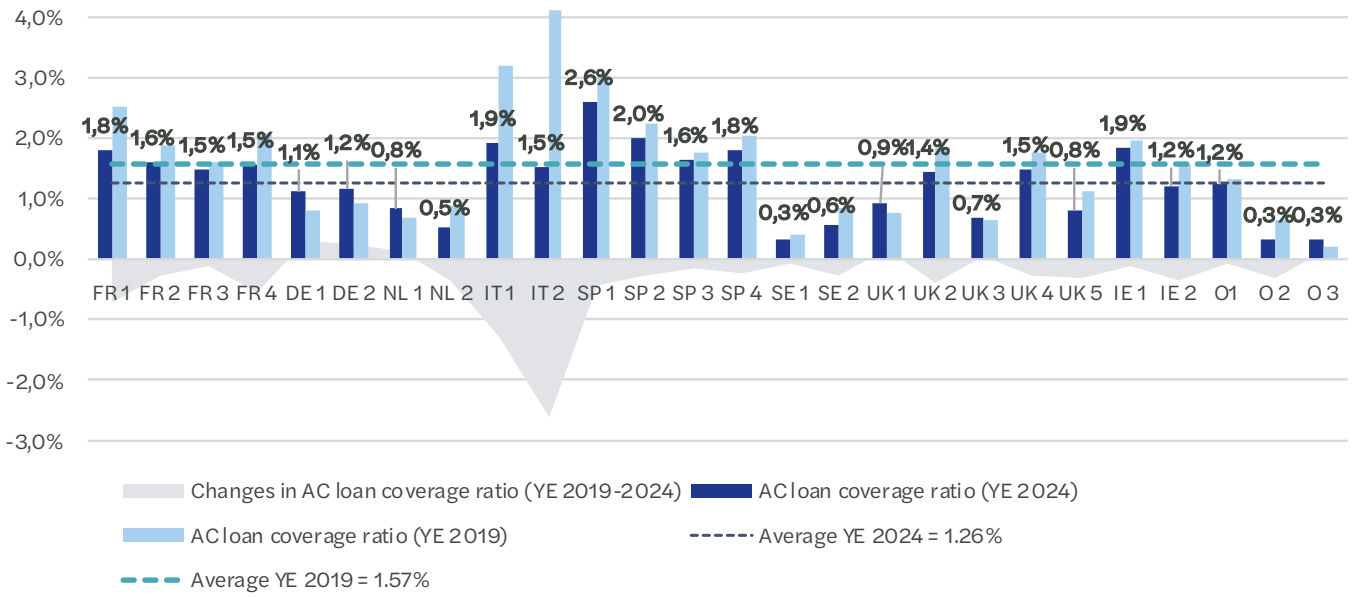
- On average, the coverage ratios decreased for all stages compared to YE 2023.
- Although the situation is relatively balanced between banks that have increased or decreased their coverage ratios for AC loans, overall, the decreases are more marked than the increases, which explains the average fall 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 2024 vs. YE 2019)

Graph 6.6: AC loans coverage ratio YE 2024 vs. YE 2019



Note: Loans at amortised cost encompass the loans granted to banks and public/retail customers that are accounted for at amortised cost (AC.) We computed the ECL coverage ratio of AC loans for each bank by dividing the ECL allowance of AC loans by the gross credit exposure of AC loans only. We have tried to be as consistent as possible given the information disclosed. Several banks do not disclose enough information to enable the calculation of this ratio. The comparison of quantitative findings should be examined with caution due to the differing natures and risk profiles of bank portfolios. 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.

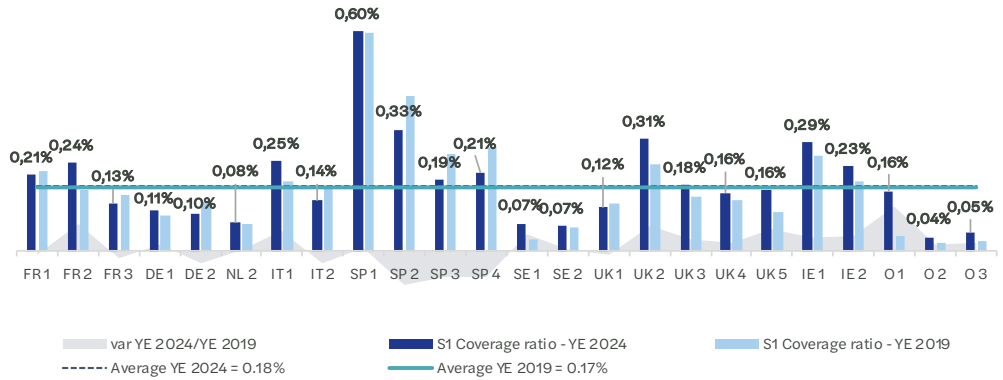
Insights

- The average ECL coverage ratio of AC loans is 1.26% in YE 2024 (1.57% in YE 2019), meaning a relative decrease in the global coverage of AC loans by 31 bp.
- The changes in the global AC loans coverage ratios are quite heterogeneous but fairly consistent between banks in the same country:
  - French banks experienced a decrease in their global coverage ratios but remained close to the average.
  - Most Dutch and German banks saw a slight increase in their coverage ratios but all of them remain below the average.
  - Italian banks incurred a significant decrease of their global AC loans coverage ratios and got much closer to the average compared to YE 2019, thanks to their deleveraging NPL policies.
  - Spanish banks' coverage ratios in YE 2024 are below their YE 2019 levels but remain above the average and still have the highest ratios among the sample.
  - UK banks have more diverse situations, but the range of coverage ratios has tightened since YE 2019 (now between 0.7% and 1.5% compared to 0.6% and 1.8% in YE 2019.)

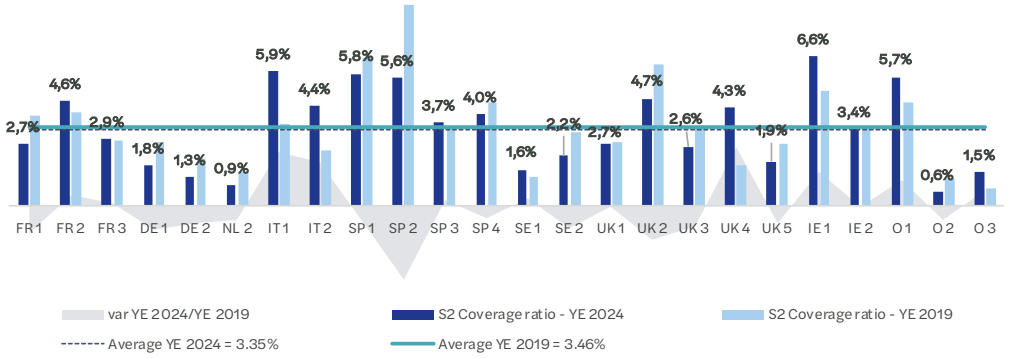
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.6 AC loans: coverage ratio broken down by stage (YE 2024 vs. YE 2019)

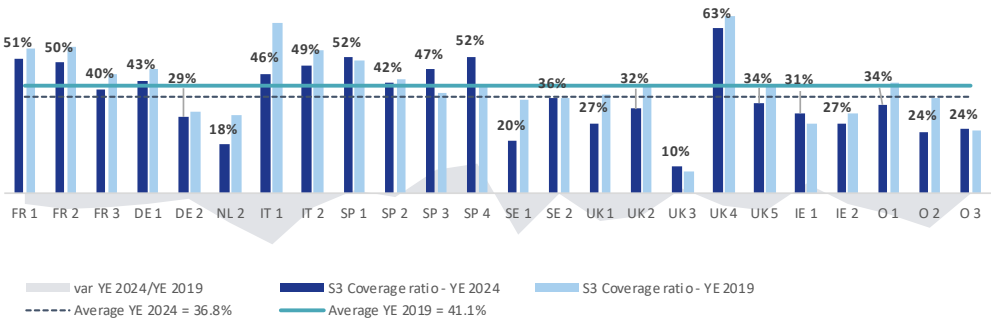
Graph 6.7: AC loans - Stage 1 coverage ratio - YE 2024 vs. YE 2019



Graph 6.8: AC loans - Stage 2 coverage ratio - YE 2024 vs. YE 2019



Graph 6.9: AC loans - Stage 3 coverage ratio - YE 2024 vs. YE 2019



Insights

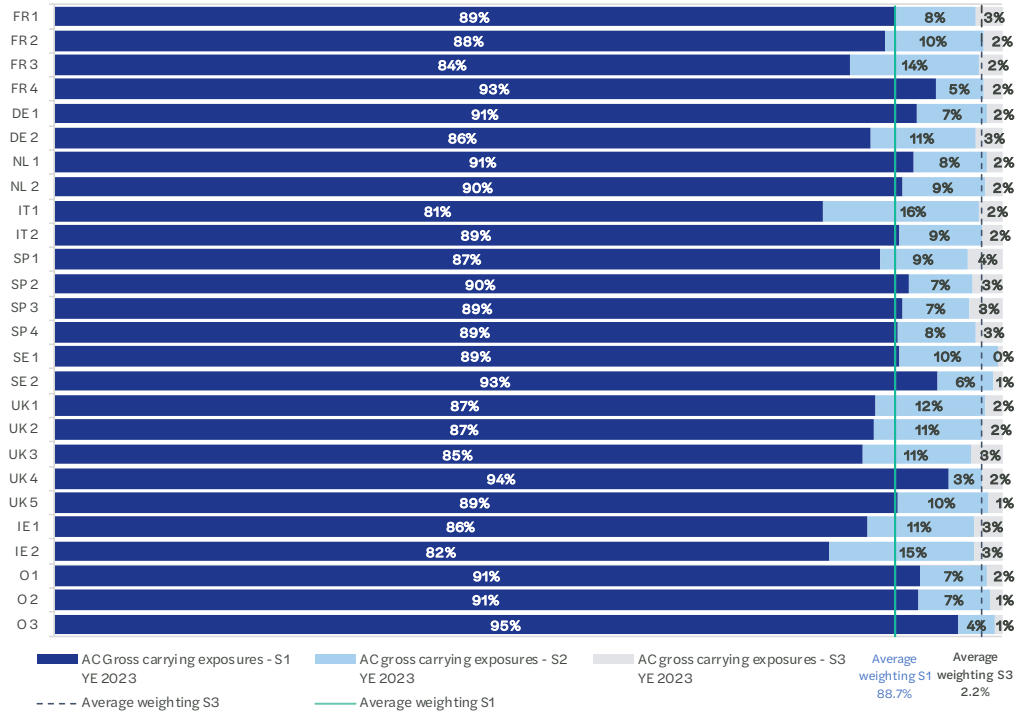
- On average, the coverage ratios remained fairly stable for Stage 1 and decreased for Stage 2 and Stage 3, compared to YE 2019.
- Stage 1 AC loan coverage ratios increased by one bp (6% in relative changes.)
- Stage 2 and Stage 3 AC loans coverage ratio decreased by respectively 11 bp and 430 bp (3% and 10% in relative change.)
- As shown in the coloured areas, the trends compared to YE 2019 are very diverse among the sample for each stage.

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

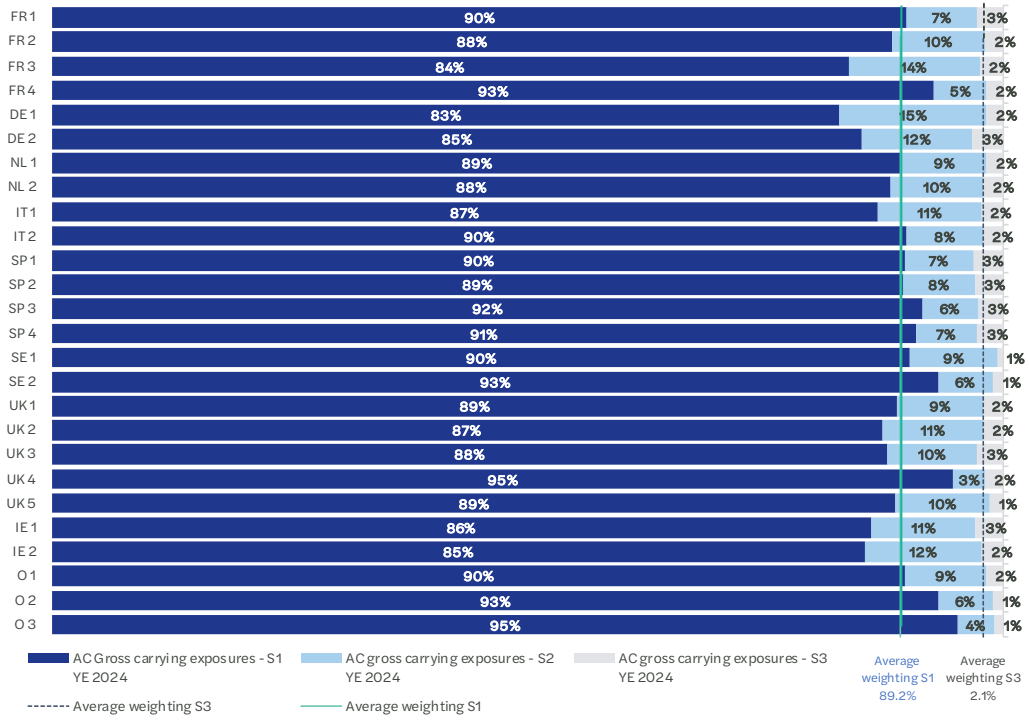
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.7 Breakdown of AC loans gross credit exposures by stage (YE 2024 vs. YE 2023)

Graph 7.1: allocation by stage of AC loans gross carrying exposures in YE 2023



Graph 7.2: allocation by stage of AC loans gross carrying exposures in YE 2024

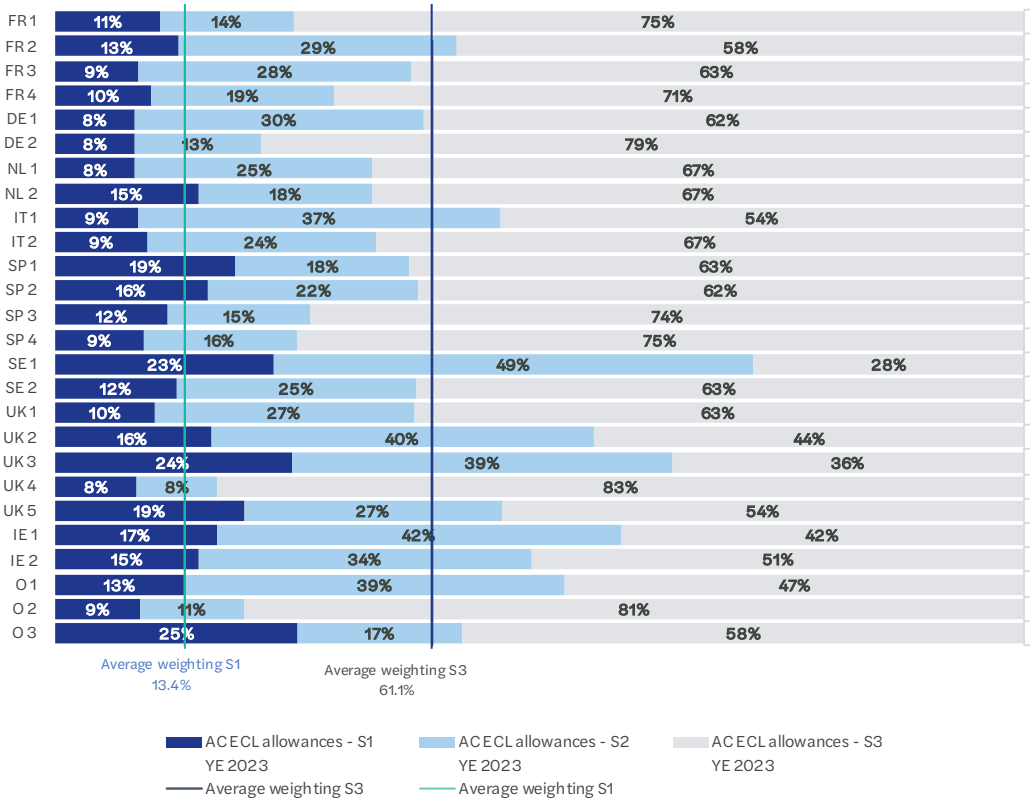


Some banks include POCI assets in their Stage 3 figures. In addition, several banks provided a breakdown by stage for most of their asset classes, but not necessarily all asset classes. The allocations by stage, therefore, are not directly comparable between banks. The comparability of Stage 3 weight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

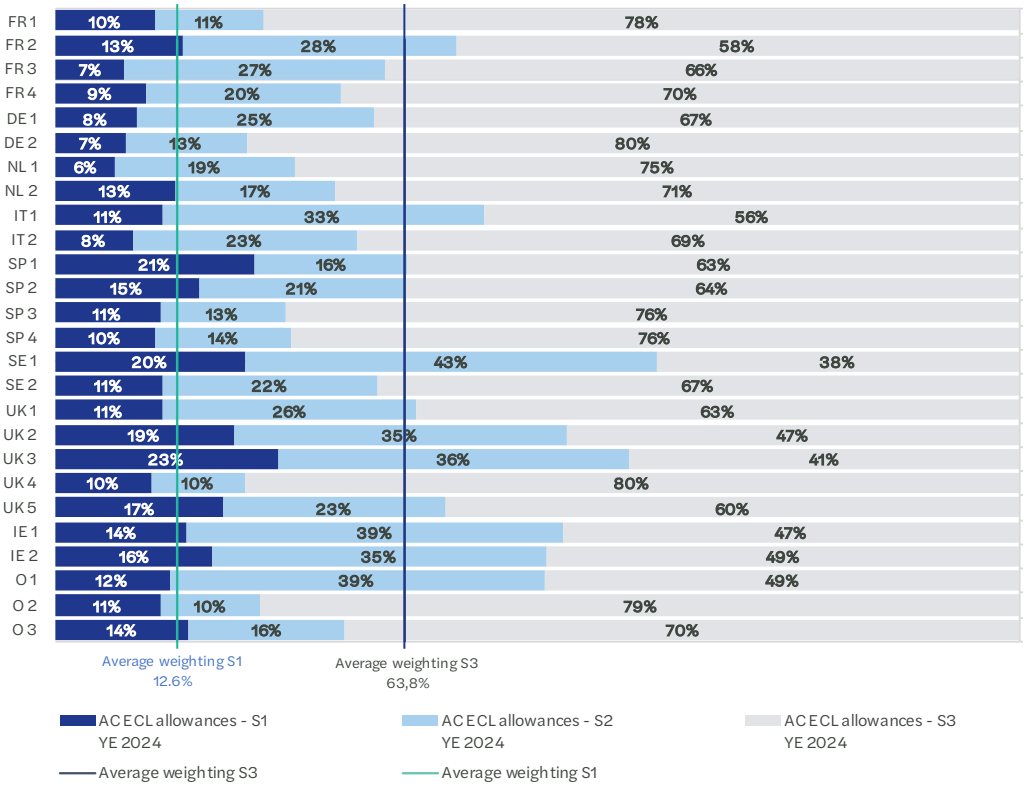
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.8 Breakdown of AC loans ECL allowances by stage (YE 2024 vs. YE 2023)

Graph 8.1: allocation by stage of AC loans - ECL allowances in YE 2023



Graph 8.2: allocation by stage of AC loans - ECL allowances in YE 2024

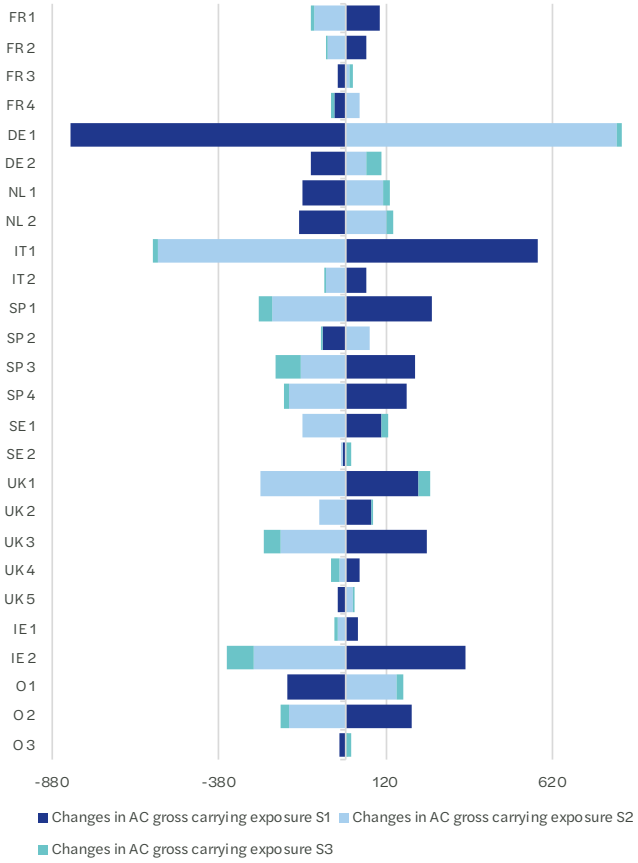


Some banks include POCI assets in their Stage 3 figures. In addition, several banks provided a breakdown by stage for most of their asset classes, but not necessarily all asset classes. The allocations by stage, therefore, are not directly comparable between banks. The comparability of Stage 3 weight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

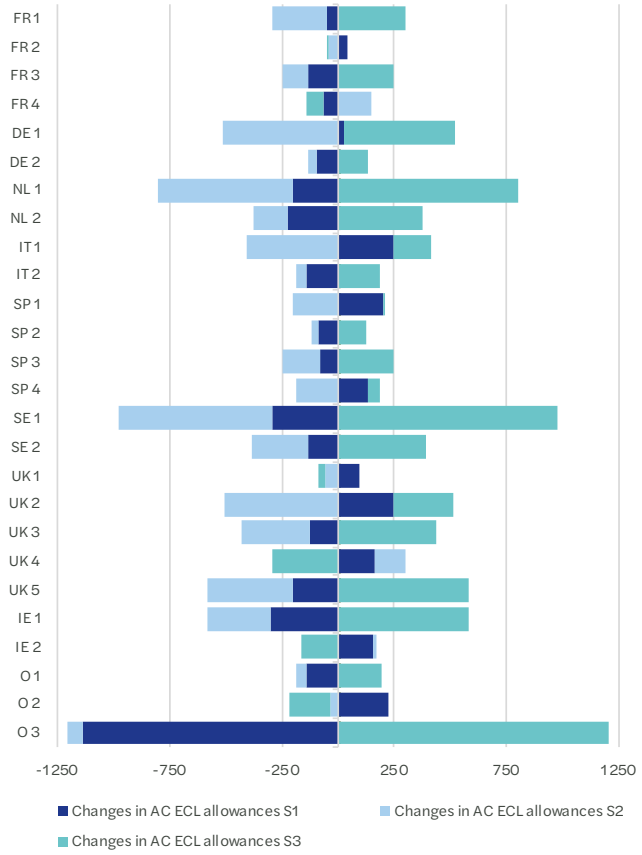
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.9 Breakdown of changes in AC loans gross credit exposure and ECL allowance by stage (YE 2024 vs.YE 2023)

Graph 9.1: changes in AC loans - GCE by stage
YE 2024 vs YE 2023 (bps)



Graph 9.2: changes in ECL allowances by stage
YE 2024 vs YE 2023 (bps)



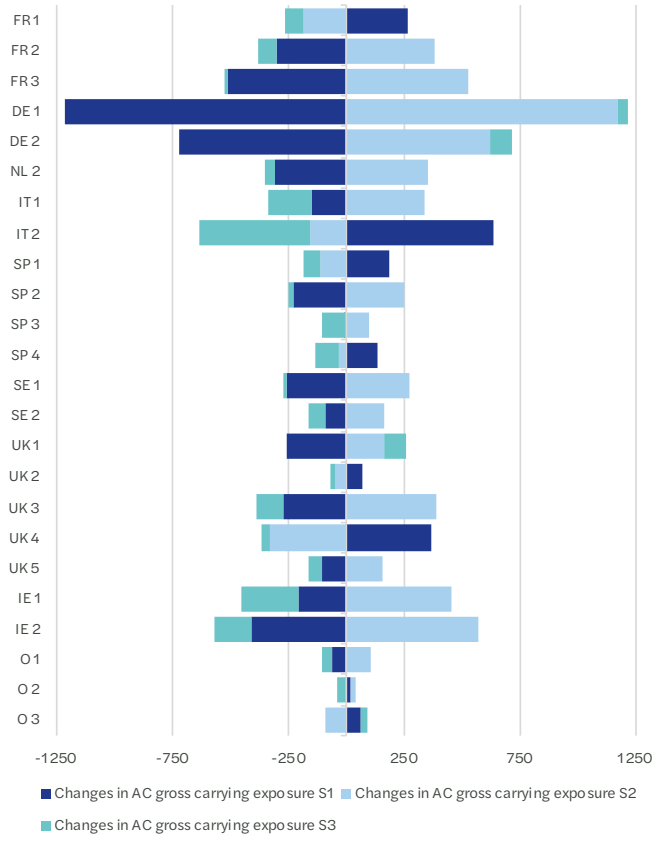
Insights

- No clear general trend appears when comparing YE 2023 and YE 2024 regarding GCE. The sample is fairly balanced between two contradictory movements: banks generally either decrease their Stage 1 GCE in favour of Stage 2 and Stage 3 (to a lesser extent) or increase their Stage 1 at the expense of Stage 2 and Stage 3.
- TThe trend is clearer for ECL allowances allocation. Most banks increase their Stage 3 ECL allowances to the detriment of Stage 1 and/or Stage 2. A few banks conversely decreased their Stage 3 in favour of Stage 2 or Stage 1.
- When comparing the stage allocation since YE 2019, the trend is quite different regarding both GCE and ECL allowances (next slide.)

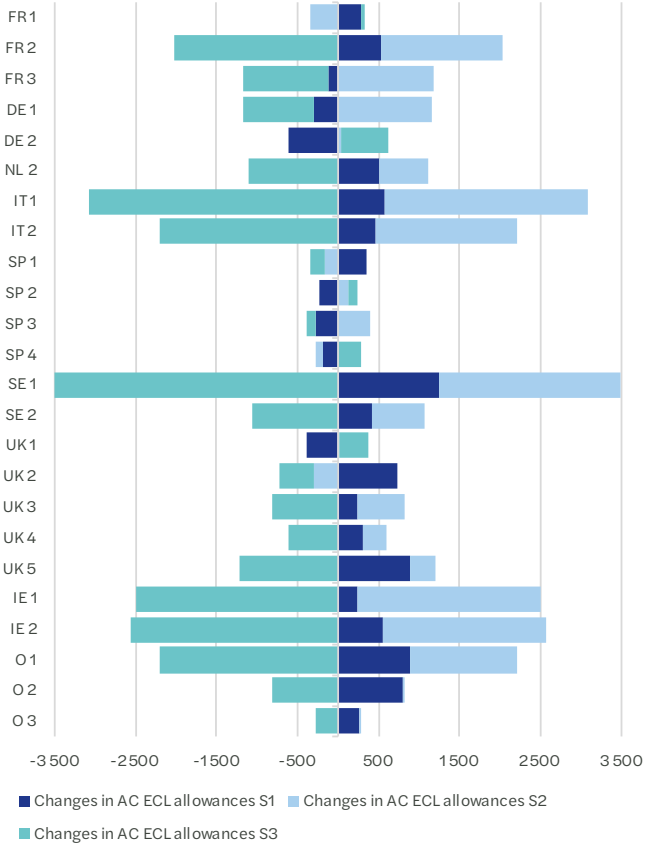
3.2. ECL allowances: changes in coverage ratios and allocation between stages

3.2.10 Breakdown of changes in AC loans gross credit exposure and ECL allowance by stage (YE 2024 vs. YE 2019)

Graph 9.3: changes in AC loans - GCE by stage
YE 2024 vs YE 2019 (bps)



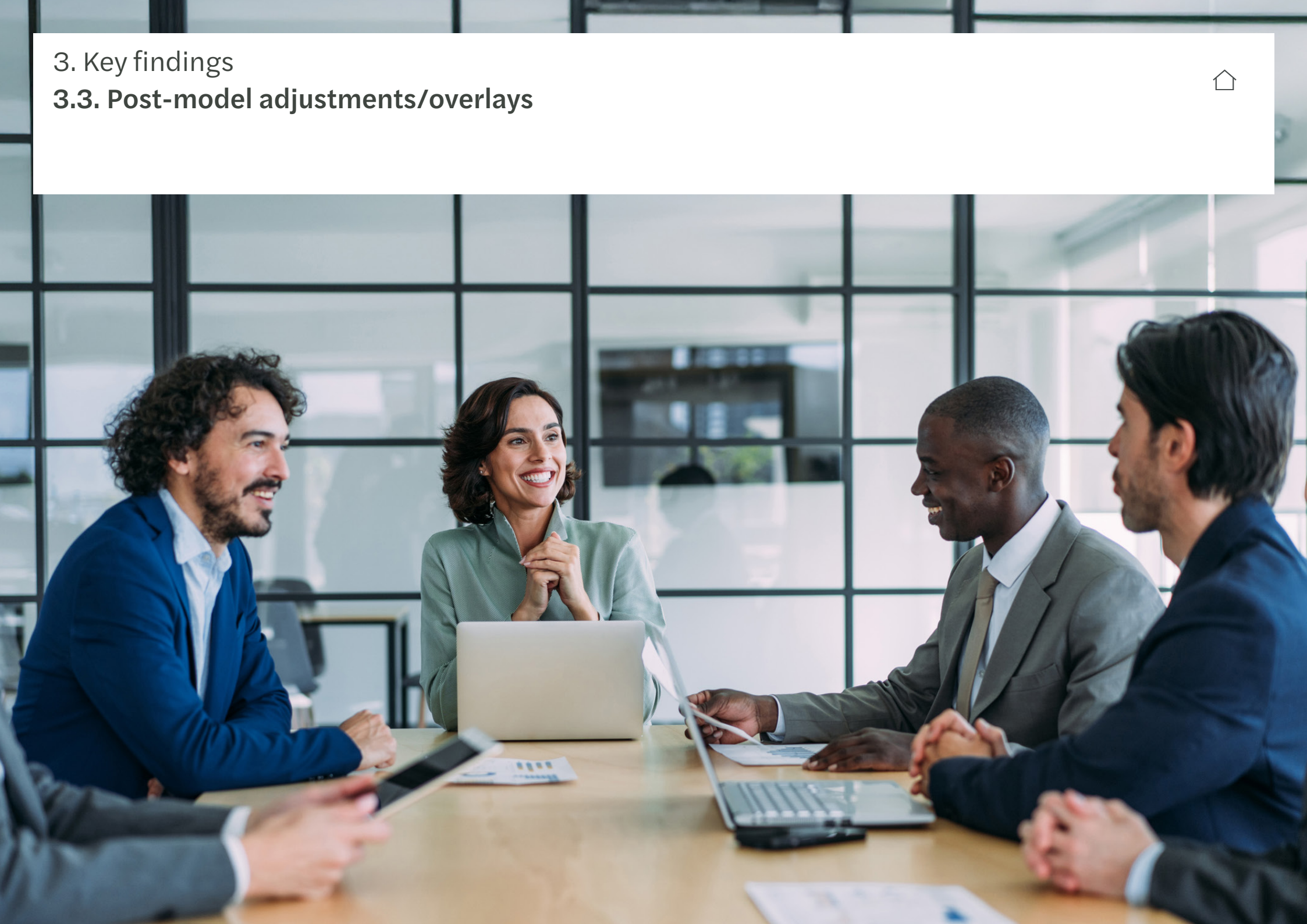
Graph 9.4: changes in ECL allowances by stage
YE 2024 vs YE 2019 (bps)



Insights

- Over the past five years, the variation of gross carrying amounts generally results 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 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 experience a significant decrease in 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 changed compared to the previous slide (almost doubled for GCE and tripled for ECL allowances.)

3.3. Post-model adjustments/overlays



3.3. Post-model adjustments/overlays

3.3.1 Weight of cumulative overlays in AC loans ECL allowance (YE 2024 vs. YE 2023)

25

banks disclosed having overlays or post-model adjustments

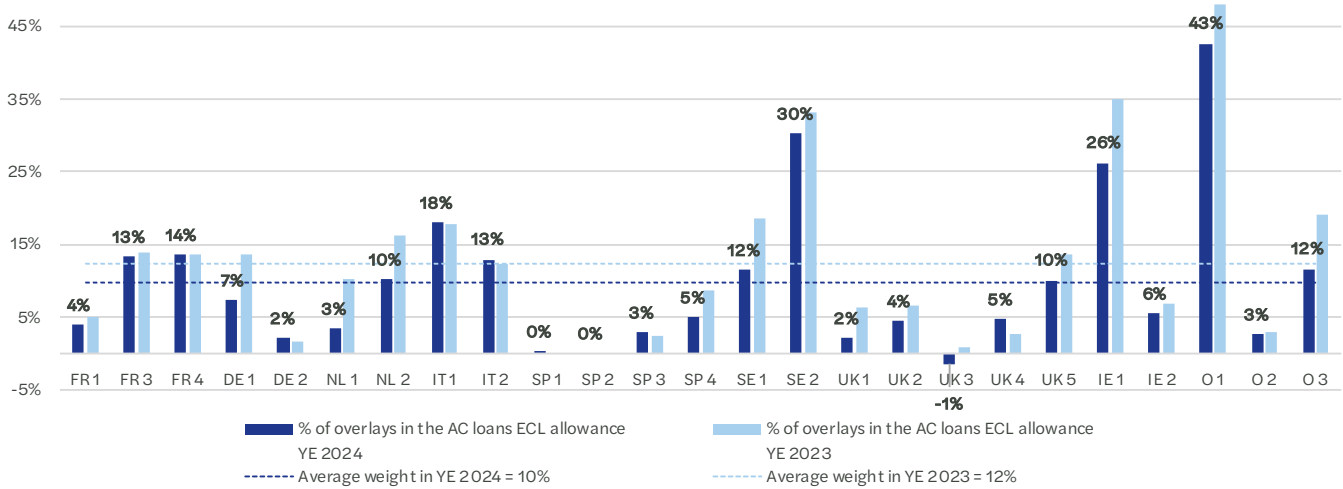
25

banks disclosed the amounts of their overlays or post-model adjustments in YE 2024 and YE 2023

1 bank (UK 3)

has a cumulative overlay that is an ECL release in YE 2024

Graph 10.1: weight of cumulative overlays in AC loans ECL allowance YE 2024 vs YE 2023



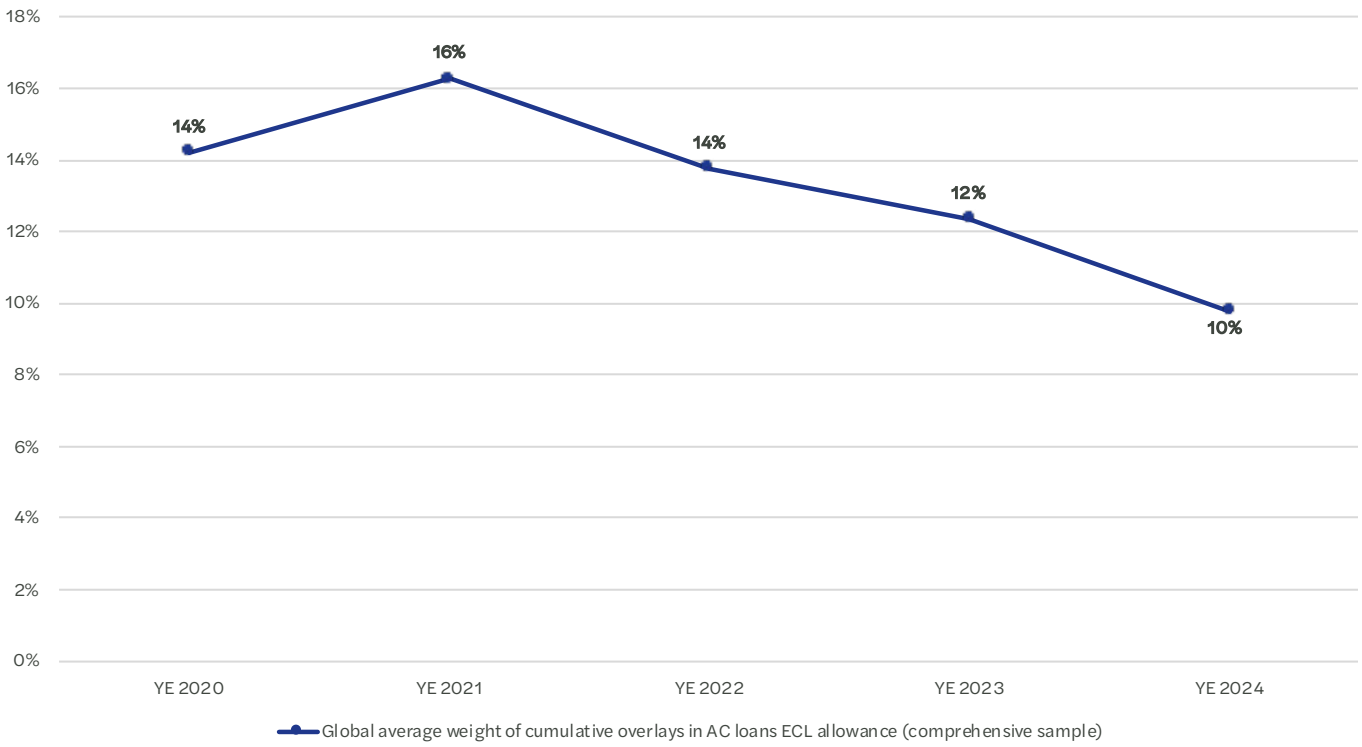
Insights

- The average weight of cumulated overlays in AC loans ECL allowances stands at 10% on average in YE 2024 (12% in YE 2023.)
- The weightings in YE 2024 range from -1% to 43%. SP 1 and SP 2 did not disclose their cumulated overlay amounts as they were not material.
- The underlying reasons for the overlay remain comparable to those observed in YE 2023. The most significant overlays still relate to uncertainties in the macroeconomic environment, model recalibration. Commercial real estate remains a vulnerable sector for most banks.
- A new overlay related to climate risk began to appear in 2024, although in most cases the amount was not disclosed or was not significant (see slide 33 for more details.) Spanish banks and NL 1 also provide dedicated overlays related to flooding in Spain at the end of 2024, which are not material when comparing to the ECL allowance.

Note: A post-model adjustment is an incremental ECL that increases (or decreases) the ECL resulting from the bank's IFRS 9 impairment models. Banks use different designations for such adjustments (management overlay, top-level adjustment, management adjustment, additional adjustment, overlay provisions, etc.) Several banks disclosed having multiple post-model adjustments. For each bank, the sum of all its overlays in YE 2024 is called the YE 2024 cumulative overlays.

3.3.2 Weight of cumulative overlays in AC loans ECL allowance since YE 2020

Graph 10.2: weight of cumulative overlays in AC loans ECL allowance YE 2020 - YE 2024



Insights

- Overlays first appeared in 2020 to take account of the pandemic, whose exceptional nature could not be incorporated into the models for calculating expected credit losses.
- The overlays increased in YE 2021 and then decreased steadily from then until YE 2024, as the ECL calculation models were updated and macroeconomic uncertainties evolved (Covid-19 pandemic, followed by war in Ukraine and inflationary context.)
- The average weight of cumulated overlays in AC loans ECL allowances stands at 10% on average in YE 2024, which is the lowest ratio since they appeared in 2020.

Note: A post-model adjustment is an incremental ECL that increases (or decreases) the ECL resulting from the bank's IFRS 9 impairment models. Banks use different designations for such adjustments (management overlay, top-level adjustment, management adjustment, additional adjustment, overlay provisions, etc.) Several banks disclosed having multiple post-model adjustments. For each bank, the sum of all its overlays in YE 2024 is called the YE 2024 cumulative overlays.

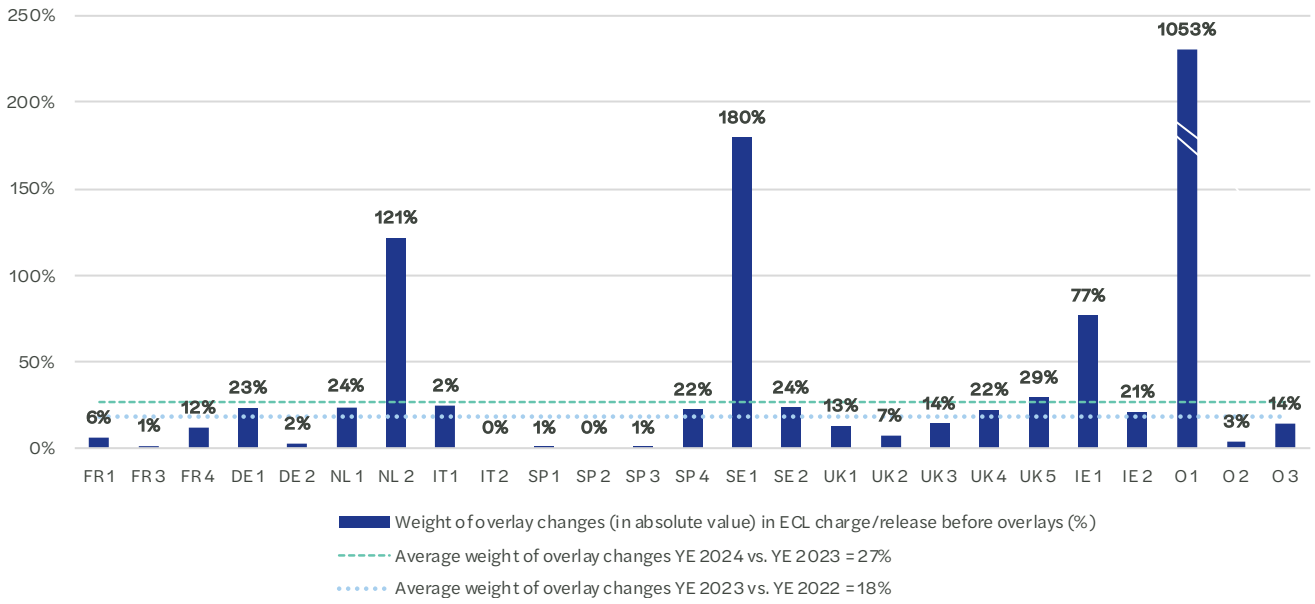
3.3. Post-model adjustments/overlays

3.3.3 Cumulative overlay changes

27%

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

Graph 10.3: Weight of cumulative overlay change (absolute value) in ECL charge/release before overlays (%) YE 2024 vs YE 2023



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 2024 has been calculated by dividing the changes in overlays in absolute value by the ECL charge/profit in P&L before overlays.

Insights

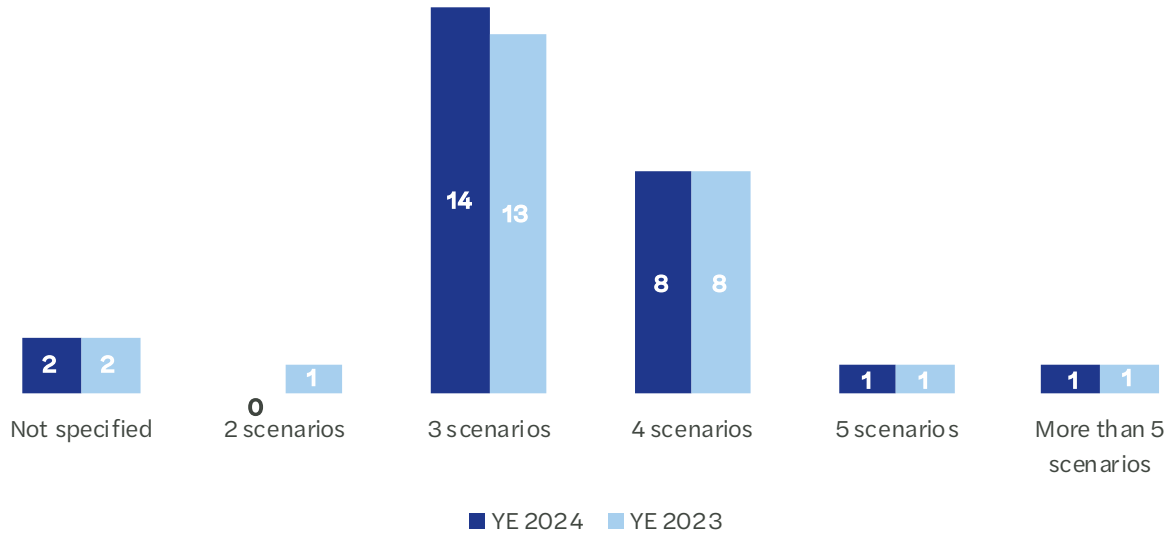
- The average weight of the change in overlays in ECL profit/loss before overlays increases from 18% in YE 2023 to 27% in YE 2024.
- O 1 value is not represented in the average because of an irrelevant value (1 053%.)
- Three banks (NL 2, SE 1 and O 1) experience an opposite change between ECL charge and overlays, meaning in those cases that the ECL charge became an ECL release after taking into account the cumulative overlay change.
- The increase of the average weight of cumulative overlay change in the net ECL charge in YE 2024 could at first glance seem inconsistent with the other credit risk indicators presented in the study (e.g., AC loans coverage ratio and weight of cumulative overlays on the balance sheet.)
- However, this is explained by a different pace in the change of cumulative overlay, compared to the ECL change in profit or loss: the average weight of cumulative overlay change (numerator) increased faster than the net average change in ECL charge/release before overlays, which decreased by -9% (denominator.)
- This upward trend in YE 2024 is also driven by the three banks mentioned above, each with values exceeding 100%, a situation not observed in YE 2023.

3.4. Forward-looking information

3.4. Forward-looking information

3.4.1 An overview of macro-economic scenarios

Graph 12.1: number of macro-economic scenarios used in ECL calculations



21

banks disclosed the weighting of each scenario in YE 2024 and YE 2023

Insights

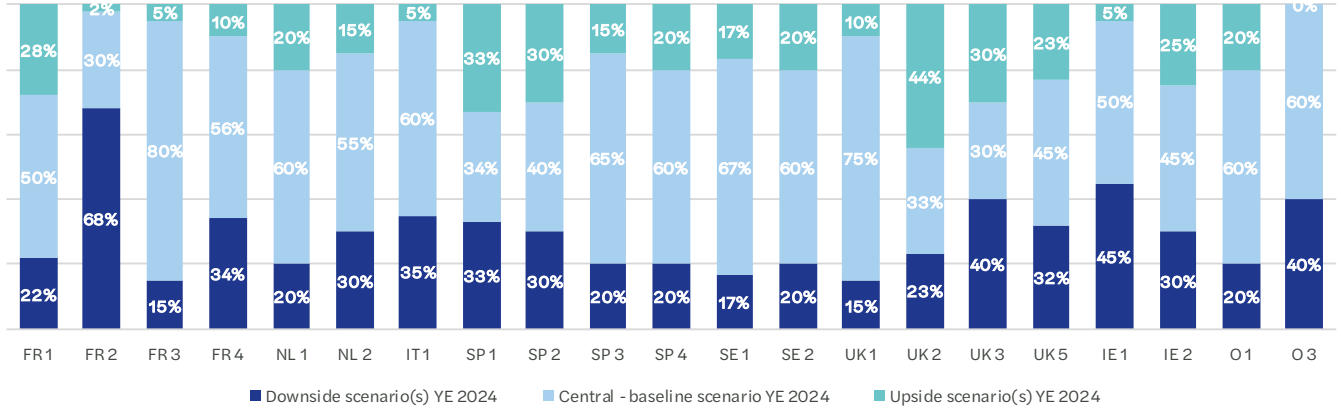
- A large part of the sample gives quantitative information, such as the weighting identified for each scenario as well as underlying parameters.
- DE 2 and O 2 do not specify the number of scenarios that are used for ECL forward-looking purposes.
- IT 1 reintroduces an optimistic scenario for YE 2024, whereas it considered only a baseline and pessimistic scenario in YE 2023.
- 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 is 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 exceeds three and includes for instance two downside scenarios, the weightings of the two downside scenarios are combined.

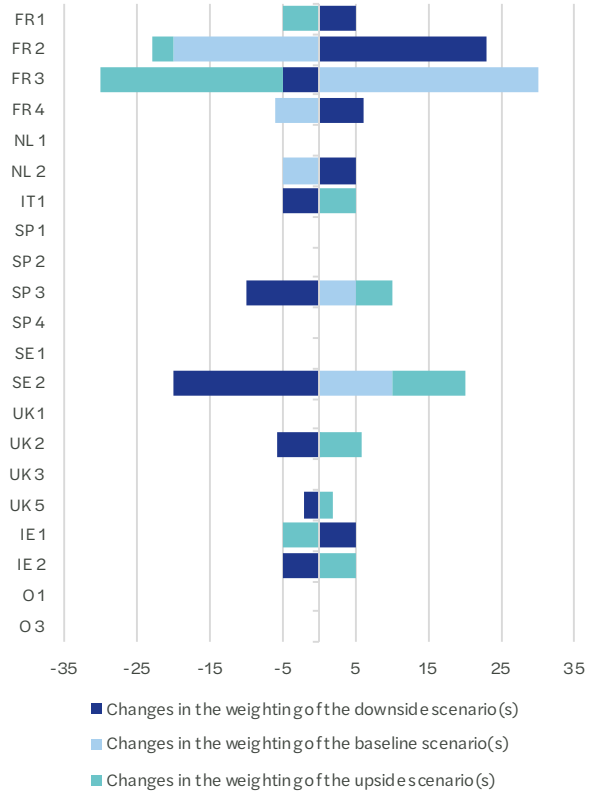
3.4. Forward-looking information

3.4.2 Weightings of macro-economic scenarios

Graph 12.2: weightings of the scenarios in YE 2024



Graph 12.3: changes in the weightings of the scenarios YE 2024 vs YE 2023



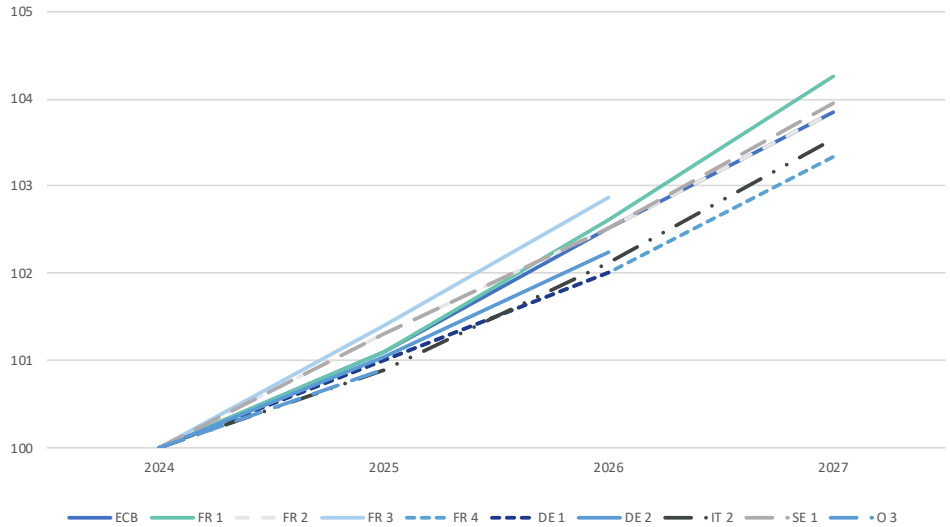
Insights

- The sample is quite heterogeneous regarding the weightings of each scenario (upside, baseline and downside) in YE 2024 – even within each country.
- Almost half of the sample (eleven banks in YE 2024 vs eleven banks in YE 2023) weight their upside scenario(s) at or above 20%.
- On the other hand, 18 banks weight their downside scenario(s) at or above 20% (17 banks in YE 2023.)
- The banks seem to be divided in their expectations: six banks have a less optimistic weighting than in YE 2023 (especially all the French banks), while the other six banks have, on the contrary, reduced the weighting of their pessimistic scenario.
- Twelve out of 21 banks adjust the weightings of their scenarios between YE 2023 and YE 2024. An empty line in Graph 12.3 means that the weightings are the same as in YE 2023.

3.4. Forward-looking information

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 12.4: Eurozone GDP growth assumptions YE 2024



Insights

- The banks are globally close to the European Central Bank's (ECB) projections, being either slightly more optimistic or pessimistic.
- No significant change in assessment compared with the ECB's forecasts was observed in YE 2024 (i.e., the banks were more optimistic than the ECB in 2023 and remained so in 2024, and vice versa.)
- The range of the assumptions is tighter than at YE 2023:
  - For 2025, the range goes from 0.9% (IT 2 and O 3) to 1.4% (FR 3.)
  - For 2026, the range goes from 1.0% (FR 4 and DE 1) to 1.5% (FR 1 and FR 3.)

Baseline scenario: Eurozone GDP growth				
	2024	2025	2026	2027
ECB	0.7%	1.1%	1.4%	1.3%
FR 1	0.8%	1.1%	1.5%	1.6%
FR 2	0.8%	1.3%	1.2%	1.3%
FR 3	0.7%	1.4%	1.5%	
FR 4		1.0%	1.0%	1.3%
DE 1		1.0%	1.0%	
DE 2	0.7%	1.0%	1.2%	
IT 2	0.7%	0.9%	1.2%	1.4%
SE 1	0.8%	1.3%	1.2%	1.4%
O 3		0.9%	3.2%	

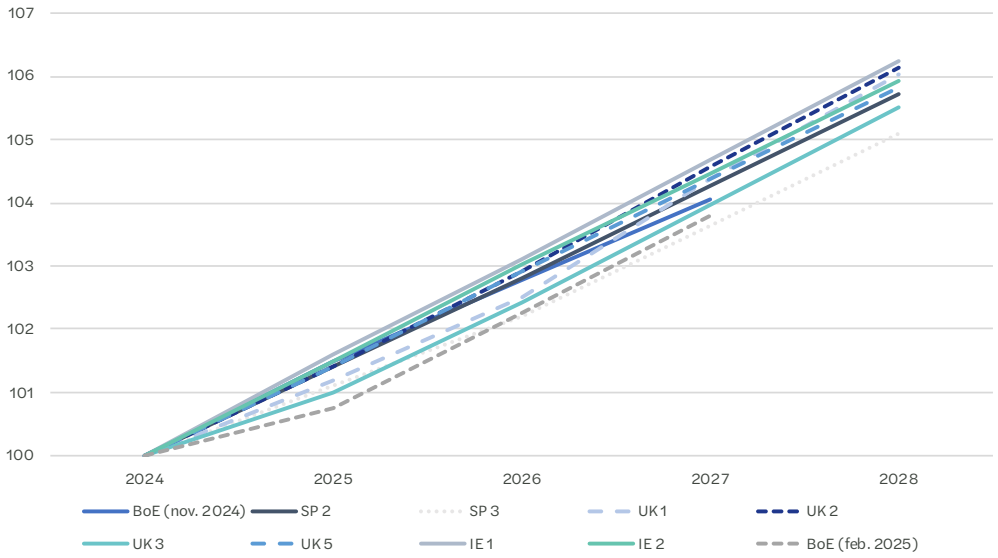
Bank assumption more optimistic than the ECB projections (i.e. higher GDP growth rate)

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

In this graph, we compare the Eurozone GDP growth rate assumptions used by the banks with the macro-economic projections used by the European Central Bank published in December 2024 (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 = 2024.) O 3 bank is an exception as the growth rate disclosed for 2026 and 2027 is a three-year cumulative growth rate for the period 2025-2027 (including 0.9% expected for 2025.)

3.4.3 Understanding the underlying parameters of macro-economic scenarios

Graph 12.5: UK GDP growth assumptions YE 2024



Baseline scenario: UK GDP growth					
	2024	2025	2026	2027	2028
Bank of England (nov. 2024)	1,0%	1,5%	1,3%	1,3%	
SP 2		1,4%	1,4%	1,4%	1,4%
SP 3		1,1%	1,1%	1,4%	1,4%
UK 1		1,2%	1,3%	1,8%	1,6%
UK 2	1,0%	1,4%	1,5%	1,6%	1,5%
UK 3	0,8%	1,0%	1,4%	1,5%	1,5%
UK 5	0,9%	1,4%	1,5%	1,4%	1,4%
IE 1	1,1%	1,6%	1,5%	1,5%	1,5%
IE 2		1,5%	1,5%	1,4%	1,4%
Bank of England (feb. 2025)	0,8%	0,8%	1,5%	1,5%	

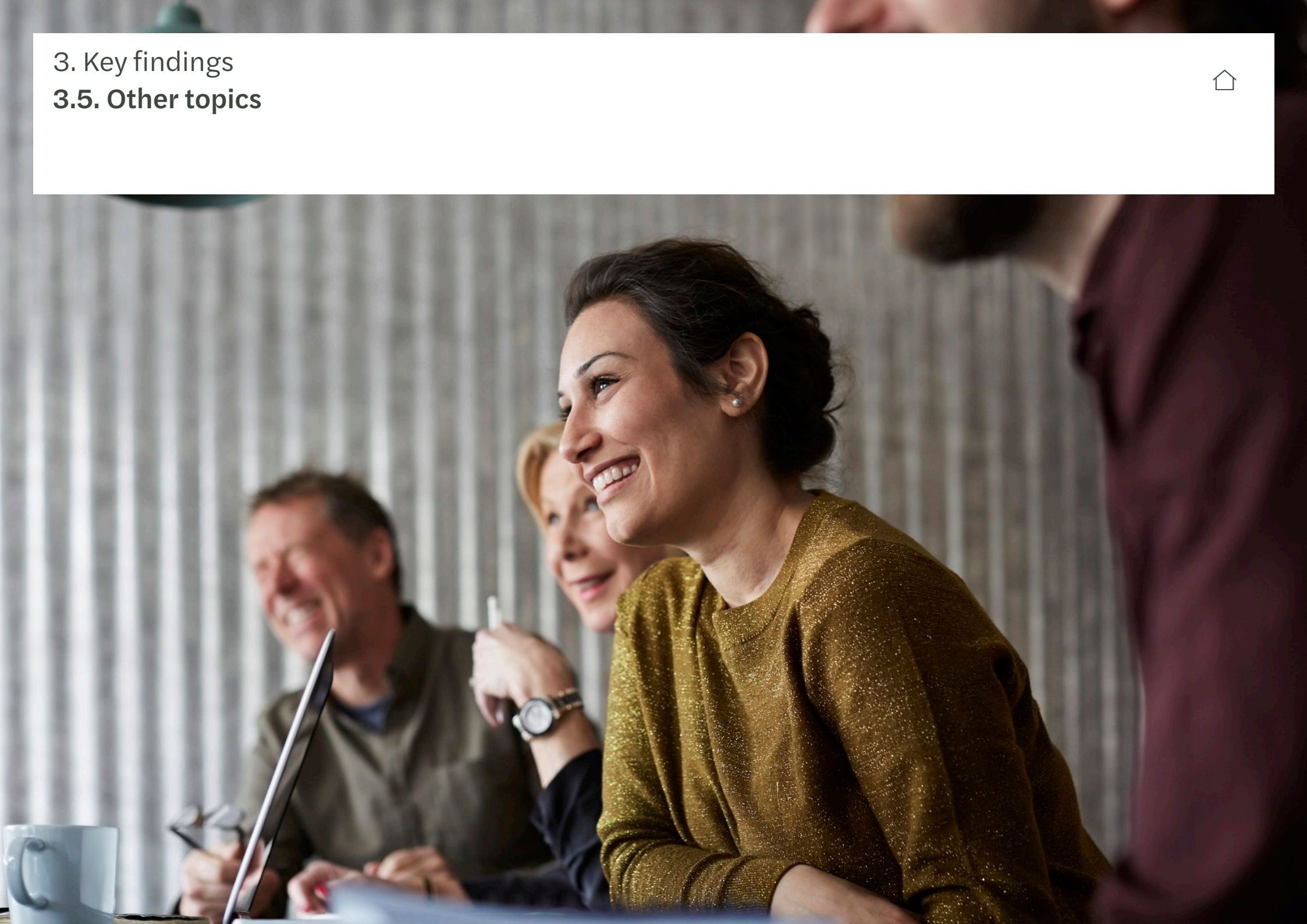
Bank assumption more optimistic than the BoE projections (i.e. higher GDP growth rate)
Bank assumption less optimistic than the BoE projections (i.e. lower GDP growth rate)

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.
- Almost all the banks in the sample are more pessimistic than the BoE for 2025 and become more optimistic for 2026 and 2027.
- Compared to previous years, the gap between BoE projections (November 2024) and the assumptions of the relevant banks of the sample, narrowed considerably.
  - The banks share very similar trends when looking at the slope of the different curves.
  - The range of GDP growth assumptions is also more limited and consistent, especially for 2026 and 2027.

In this graph, we compare 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 2024 and February 2025, Table 1. D (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 = 2024.) SP 2 uses a global average GDP growth rate for the period 2025-2029. IE 2 uses a global average GDP growth rate for the period 2027-2029. We have assumed for these banks a constant annual GDP growth rate.

3.5. Other topics



3.5.1 Climate risk and ECL

21

banks disclosed qualitative information about integration of climate risk in the ECL

16

banks took climate risk into account in their ECL in YE 2024, either through post-model adjustments/ overlays (13 banks) or in their ECL calculation models through parameters such as PD or LGD, or forward-looking information (three banks)

7

banks provided detailed amounts of ECL related to climate risk : NL 1, NL 2, IT 1, SP 3, UK 3, UK 5 and IE 2

Insights

- The qualitative information provided on climate risk in ECL generally consists of:
  - Indicating the types of climate risks and counterparties or exposures concerned (e.g., agriculture, properties used as collateral in flood-prone areas, floods in Spain in October 2024, etc.)
  - How these risks are integrated in the ECL from a methodological perspective (i.e., estimation using PMAs, integration of macroeconomic scenarios in forward-looking information, or in calculation parameters such as probability of default or loss given default.)
- Although most banks consider climate risk in their ECL, only seven provided detailed amounts related to this risk.
  - Banks that do not disclose amounts while taking this risk into account in their ECL generally stated that the impact on credit risk was not material in YE 2024.
  - Among the seven banks that specify the amounts of ECL allocated to climate risk, these represent a maximum of 1% of the amount of ECL allowance on the balance sheet, with the exception of NL 2, where this amount stands at 3.5%.

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