European banks and COVID-19 – Impacts on 2020 Q3 results

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Do Q3 results give any more insights on how the pandemic is affecting the European banks' loan books?

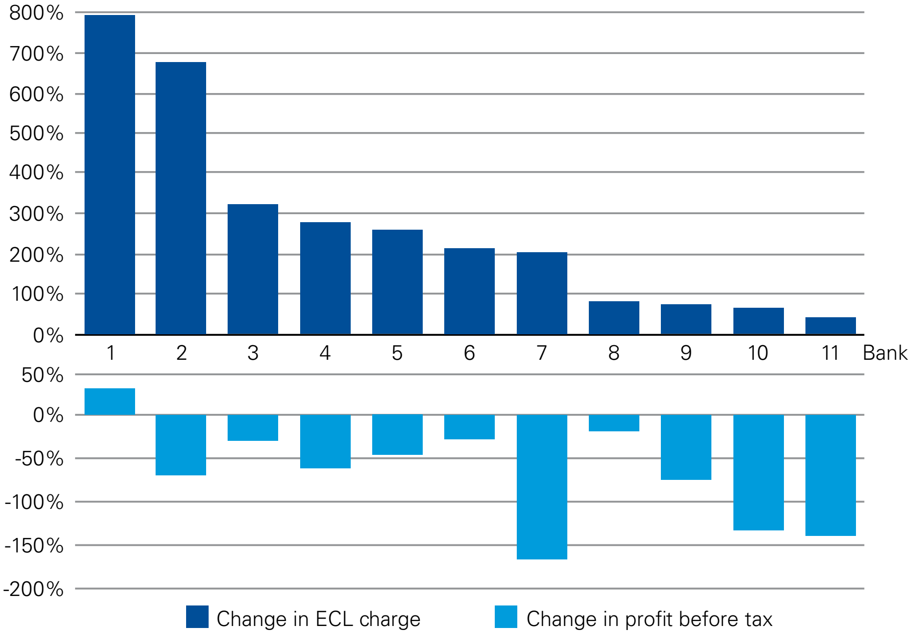
In our previous blogs, we reported on the COVID-19 pandemic's impact on the expected credit losses (ECL) disclosed by a selection of large European banks (Q1 reporting to **31 March 2020** and **half year to 30 June 2020**) and five Canadian banks (**half year to 30 April 2020**).

Here, we look at what those same European banks have disclosed in their 30 September 2020 (Q3) quarterly reports. Similarly to Q1 reporting, the level of detail released by banks varies considerably. This means that the number of banks included in each of the ratios below differs.

ECL charges and profitability

Firstly, for 11 banks we compared the total ECL charge in profit or loss[1] and the profit before tax for the nine months to 30 September 2020 to the corresponding period in 2019. The percentage change in the ECL charge and profit before tax for each of the banks is shown below.

Change in ECL charge and profit before tax



[1] This is the total ECL charge in profit or loss rather than the ECL charge for the loans held by those banks.

The percentage increase in ECL charge varied considerably – from 40% (a Spanish bank) to 800% (a Swiss bank) – although the latter appears to have had a very small year to date (YTD) ECL charge in Q3 2019.

Interestingly, the bank with the largest increase in its ECL charge also reported an increase in its profit before tax for the same period. The two banks with the smallest increases in ECL reported some of the largest declines in their profit before tax – similar to what we observed at the half year and discussed in our last blog.

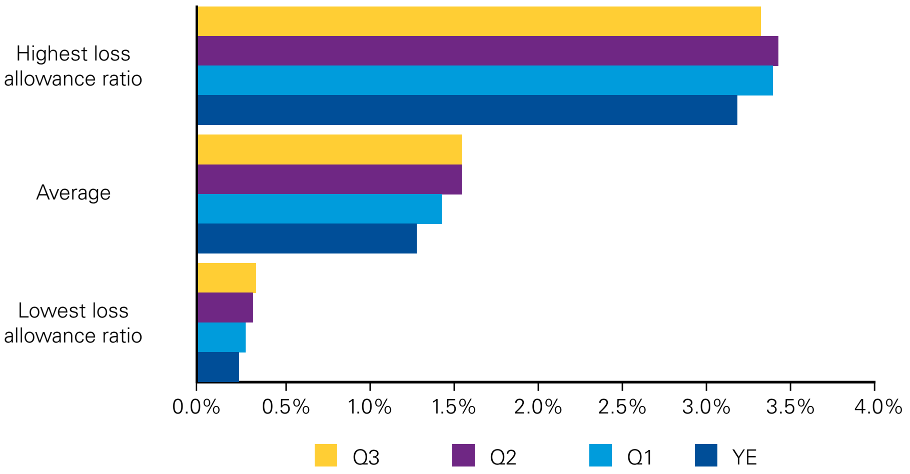
For all of the banks in our selection, we also calculated the average increases[2] in ECL charge for Q1, Q2 and Q3 2020 from the respective quarters in 2019, which showed a significantly decelerating trend, as follows:

	Q1 2020	Q2 2020	Q3 2020
Average increase in ECL charge vs 2019 comparative quarter	600%	400%	40%

The loss allowance ratio

The chart below shows the loss allowance ratios[3] for loans carried at amortised cost of eight of the 11 European banks at 31 December 2019 (YE), 31 March 2020 (Q1), 30 June 2020 (Q2) and 30 September 2020 (Q3).

Loss allowance ratio



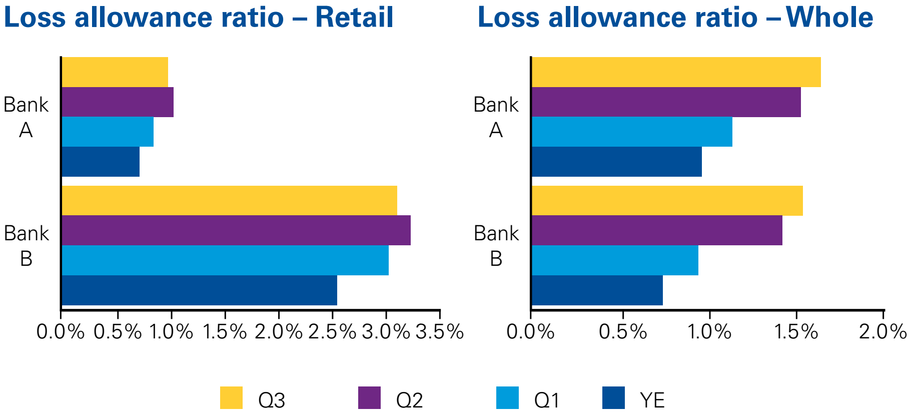
The increasing trend for the average loss allowance ratio in Q1 and Q2 seems to have stopped in Q3. However, with many major European economies entering a second lockdown towards the end of 2020 this reversal may not continue for Q4. The average loss allowance ratio[4] for loans carried at amortised cost increased from 1.28% at 31 December 2019 to 1.43% at 31 March 2020, to 1.55% at 30 June 2020 and reduced slightly to 1.53% at 30 September 2020.

Two UK banks also disclosed loss allowance ratios separately for their retail and wholesale loans, as shown below.

[2] The average increases for Q1 (and Q2 and Q3 respectively) were calculated by adding the percentage increases during the quarter for all selected banks and dividing it by the number of banks.

[3] The loss allowance ratio is the ratio of the closing balance of loss allowance to the closing balance of gross carrying amount of loans measured at amortised cost.

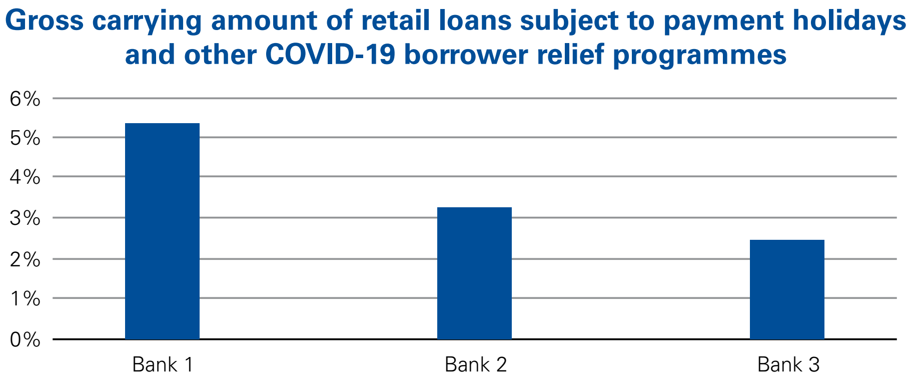
[4] The average loss allowance ratio is calculated by adding the loss allowance ratios of all selected banks and dividing it by the number of banks. This means that the average does not consider the different sizes of bank loan portfolios and loss allowance – i.e. all banks are weighted equally.



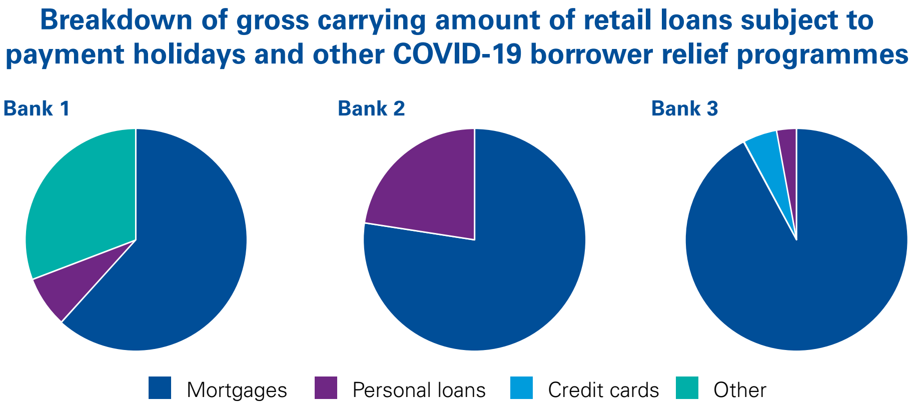
The loss allowance ratio in the retail business has reduced slightly compared to Q2. Meanwhile, the wholesale lending business saw a slight increase in the ratio for Q3 compared to Q2.

Payment holidays and other COVID-19 borrower relief programmes

Three of the banks in our selection disclosed information relating to the volume of retail lending that was subject to payment holidays or other COVID-19 borrower relief programmes as at 30 September 2020. The gross carrying amount of these retail loans represented between 2.30% and 5.17% of the total gross carrying amount of retail loans measured at amortised cost on the banks' balance sheets. In addition, Bank 2 (see chart below) disclosed that wholesale loans subject to COVID-19 support schemes represented 9.82% of the total gross carrying amount of wholesale loans measured at amortised cost at the end of Q3.

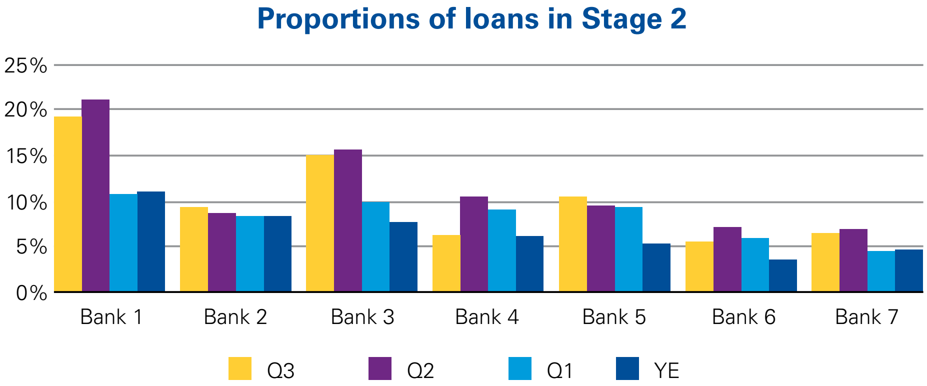


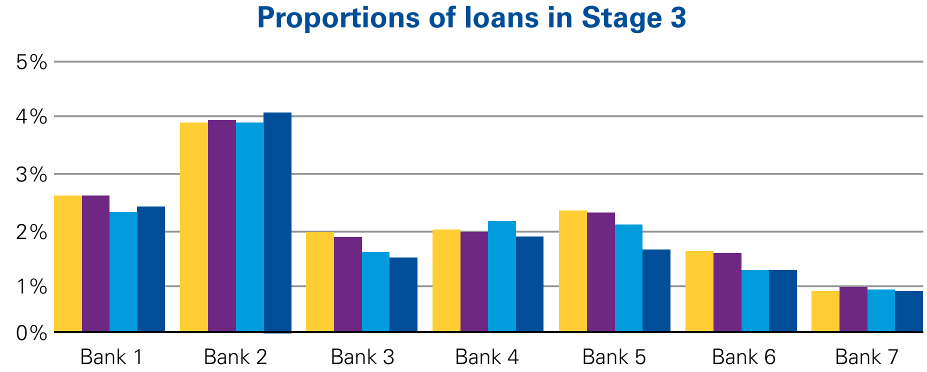
All three of these banks disclosed that the number and amount of loans subject to payment holiday or other COVID-19 borrower relief programmes has reduced significantly from previous 2020 quarter ends. The types of retail lending products subject to payment holiday or other COVID-19 borrower relief programmes at the end of Q3 differed between the three banks, as follows:



Staging of loans

In our earlier blogs, we looked at seven European banks that had disclosed an analysis of their loans by stages. The graphs below show for the end of each quarter the proportions of loans in Stages 2 and 3 respectively.





Most of the banks in our selection saw a reduction in the proportion of their loans in Stage 2 at the end of Q3. The average share of loans in Stage 2 for the seven banks increased from 6.77% at 31 December 2019 to 8.28% at 31 March, to 11.31% at 30 June and reduced to 10.34% at 30 September 2020[5]. Similarly to the previous two quarters of 2020, the proportion of loans in Stage 3 increased slightly over Q3 but remained mostly stable.

Forward-looking information

Previously, we have looked at how banks have tackled the task of assessing the impact of the pandemic on their future economic scenarios when measuring ECL. So, what is the position at 30 September 2020?

Of the 11 European banks, four stated explicitly that they had updated their economic scenarios for COVID-19 impacts in Q3. The remaining banks made no such explicit statement.

No bank reported using any additional economic scenarios at 30 September 2020 to those at 31 December 2019. However, one bank attributed a 0% probability to their upside scenario throughout 2020, in effect reducing its number of scenarios to two.

In previous quarters, the majority of banks changed the probabilities attributed to their economic scenarios in response to the economic impacts of the pandemic. For Q3, one bank explicitly reported updating the probabilities for its base, upside and downside scenarios for Q2. Three banks disclosed the same probabilities as those for Q2; the other seven banks remained silent on this matter. Interestingly, the one bank that did update its probabilities assigned more weight to downside scenarios.

[5] The average share of loans assigned to Stage 2 is calculated by adding the proportions in Stage 2 and dividing by the number of banks selected. This means that the average does not take into account the different sizes of bank loan portfolios – i.e. all banks are weighted equally.

The majority of the banks disclosed the key inputs into their macroeconomic scenarios relating to the markets in which they operate. However, as they operate across a variety of different markets, we could not compare those inputs across different banks.

Six of the selected banks appear to conclude that the economic outlook for 2021 points to a recovery for the key jurisdictions within which they operate.

Previously, we remarked that the majority of the 11 banks reported the use of management overlays on top of the amounts calculated by their ECL models to respond to the economic impacts of the pandemic, government support measures and low oil prices. Many of the banks have not disclosed this information with such granularity for Q3.

What next?

In our blogs, we aim to share with you the emerging information on how banks have approached estimating ECL in this unprecedented environment. We will monitor this information as it becomes available and will next consider 2020 year-end reporting by European banks.

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