# FIRST TIME APPLICATION OF IFRS 9 – FINANCIAL INSTRUMENTS – IN EUROPEAN BANKS

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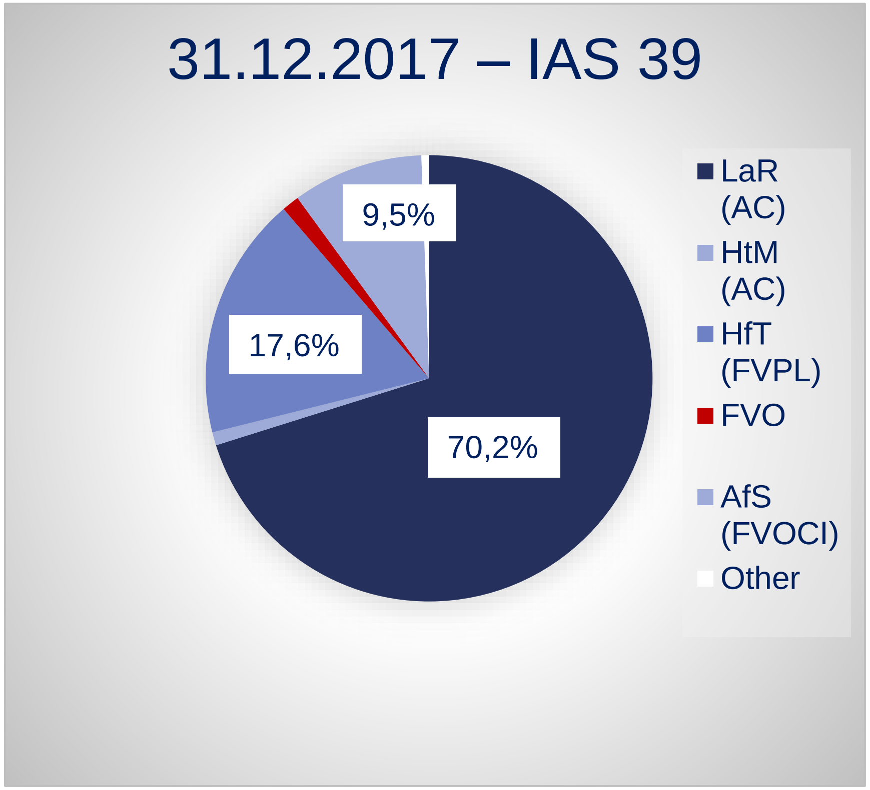
# Agenda

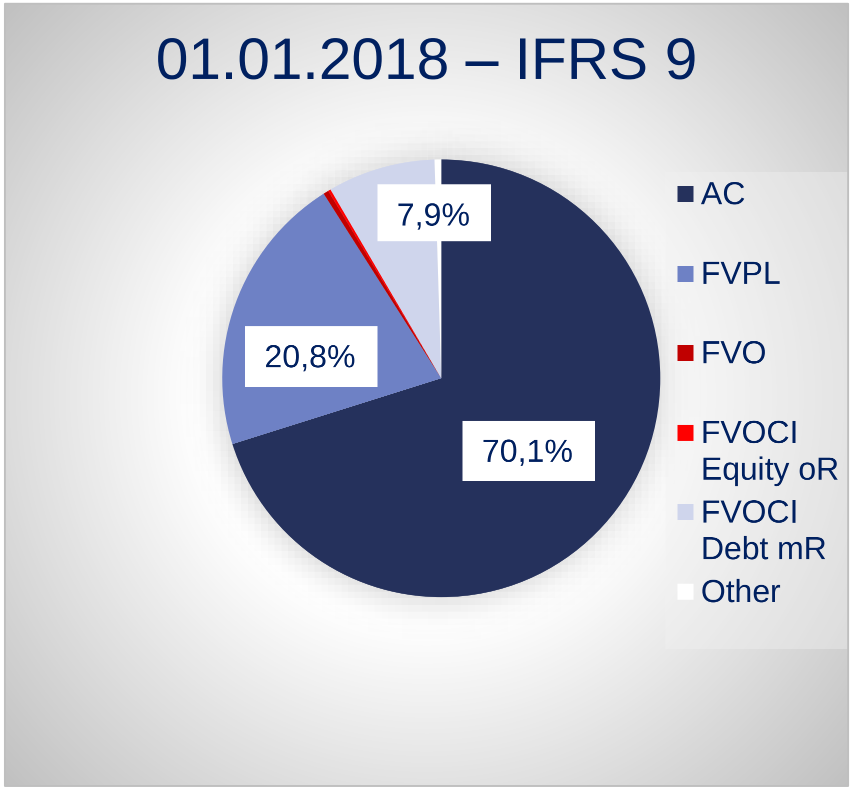
- Classification effects
- Impairment effects – year end to year end
- CET1 and equity effects – 31.01.2017 and 01.01.2018
- Further research activity

# CLASSIFICATION EFFECTS

# Classification comparison

## Overall classification effects




Only 17 banks use the FVO and FVOCI for equity instruments is making up only 0,2% of financial instruments

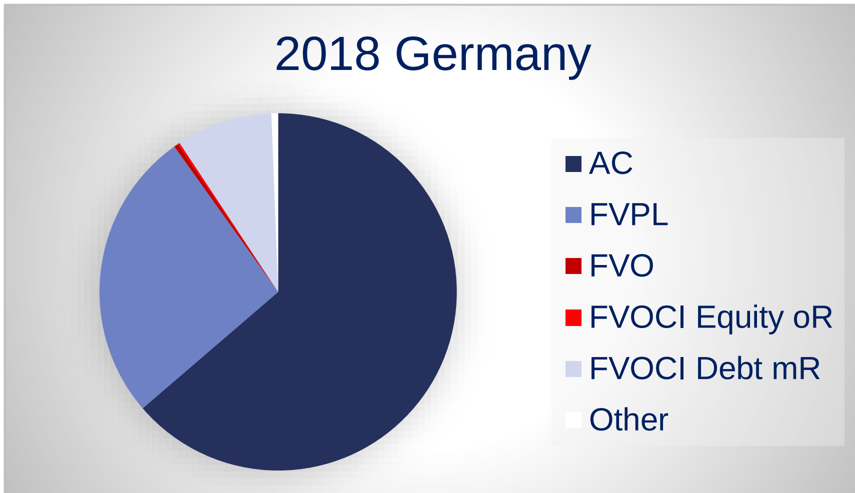
## IAS 39 movements

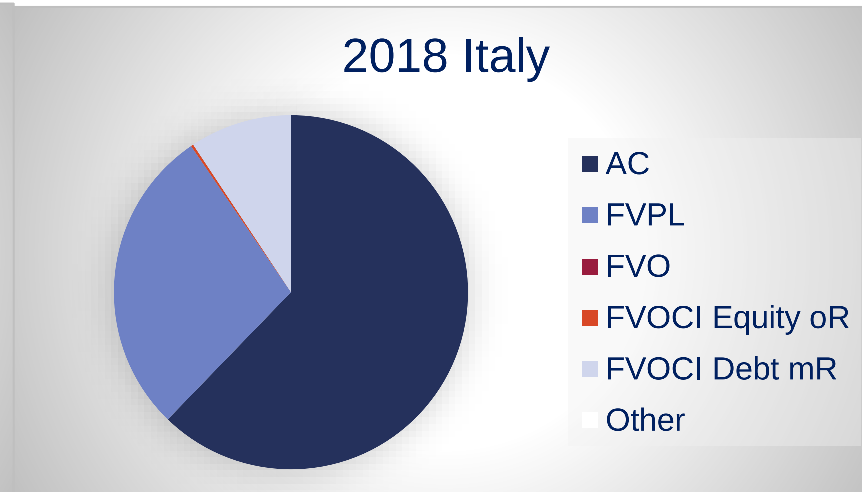
Movements from IAS 39 to IFRS 9 categories (other – category not clear)

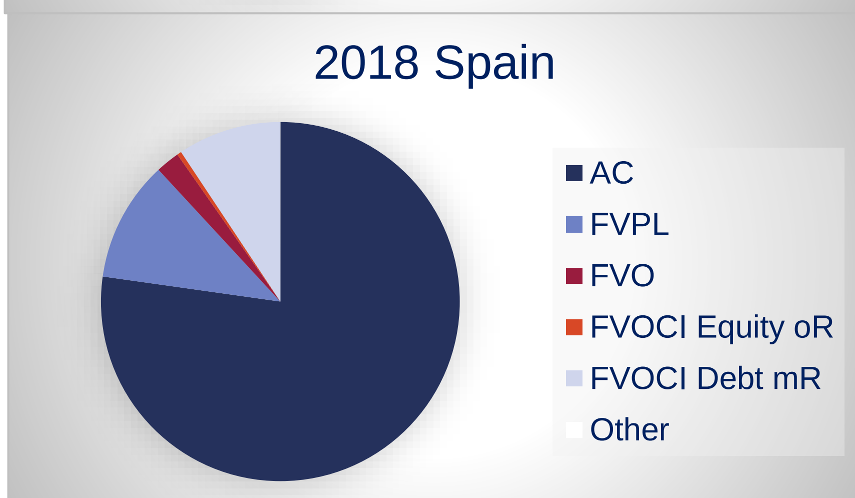
| | LaR (AC) | HtM (AC) | HfT (FVPL) | FVO | AfS (FVOCI) | Other |
|---|---|---|---|---|---|---|
| AC | 96.7% | 78.3% | 0.5% | 1.5% | 14.2% | 13.6% |
| FVPL | 2.7% | 6.7% | 99.1% | 60.8% | 5.5% | 24.1% |
| FVO | 0.1% | 0.3% | - | 26.2% | - | - |
| FVOCI Equity oR | - | - | - | - | 2.0% | - |
| FVOCI Debt mR | 0.5% | 13.0% | 0.3% | 11.0% | 76.9% | 0.3% |
| Other | - | 1.6% | - | 0.5% | 1.3% | 62.0% |

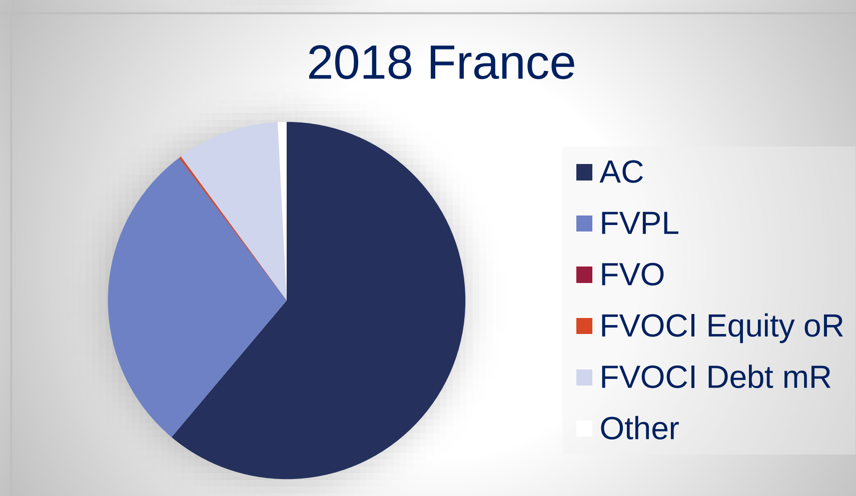
## Classification per country

# Classification effects – country specifics



# Credit rating approach – composition of the sample

## Sample clustering per credit rating approach

| Credit Risk Approach | % of IRBA rated assets | # of Institutions |
|---|---|---|
| Internal Rating Based (IRBA) | [100%;85%] | 11 |
| Mainly IRBA | ]85%;60%] | 30 |
| Mixed | ]60%;40%] | 12 |
| Mainly SA | ]40%;15%] | 0 |
| Standardized Approach (SA) | ]15%;0%] | 25 |

# Categories and credit rating model

## Composition of categories according to credit rating model (1)

| IRBA | AC | FVPL | FVO | FVOCI Equity | FVOCI Debt | Other |
|---|---|---|---|---|---|---|
| LaR (AC) | 95.1% | 2.3% | - | - | 0.9% | - |
| HtM (AC) | 2.5% | 0.1% | - | - | 0.9% | - |
| HfT (FVPL) | 0.1% | 59.2% | - | - | - | - |
| FVO | - | 35.1% | 100.0% | - | - | - |
| AfS (FVOCI) | 2.3% | 1.6% | - | 100.0% | 98.1% | 99.6% |
| Other | - | 1.6% | - | - | 0.1% | 0.4% |
| | | | | | | |
| Portfolio Composition | 73.8% | 15.1% | 0.5% | 0.0% | 9.2% | 1.3% |

| Mainly IRBA | AC | FVPL | FVO | FVOCI Equity | FVOCI Debt | Other |
|---|---|---|---|---|---|---|
| LaR (AC) | 96.3% | 2.8% | 32.3% | - | 4.5% | - |
| HtM (AC) | 0.7% | 0.1% | - | - | 2.3% | 6.1% |
| HfT (FVPL) | 0.2% | 93.2% | 1.1% | - | 1.2% | 0.4% |
| FVO | - | 0.9% | 66.6% | - | 1.4% | 1.0% |
| AfS (FVOCI) | 2.6% | 2.4% | - | 100.0% | 90.5% | - |
| Other | 0.2% | 0.6% | - | - | - | 92.6% |
| | | | | | | |
| Portfolio Composition | 63.2% | 28.1% | 0.0% | 0.2% | 8.1% | 0.4% |

## Categories and credit rating model

# Composition of categories according to credit rating model (2)

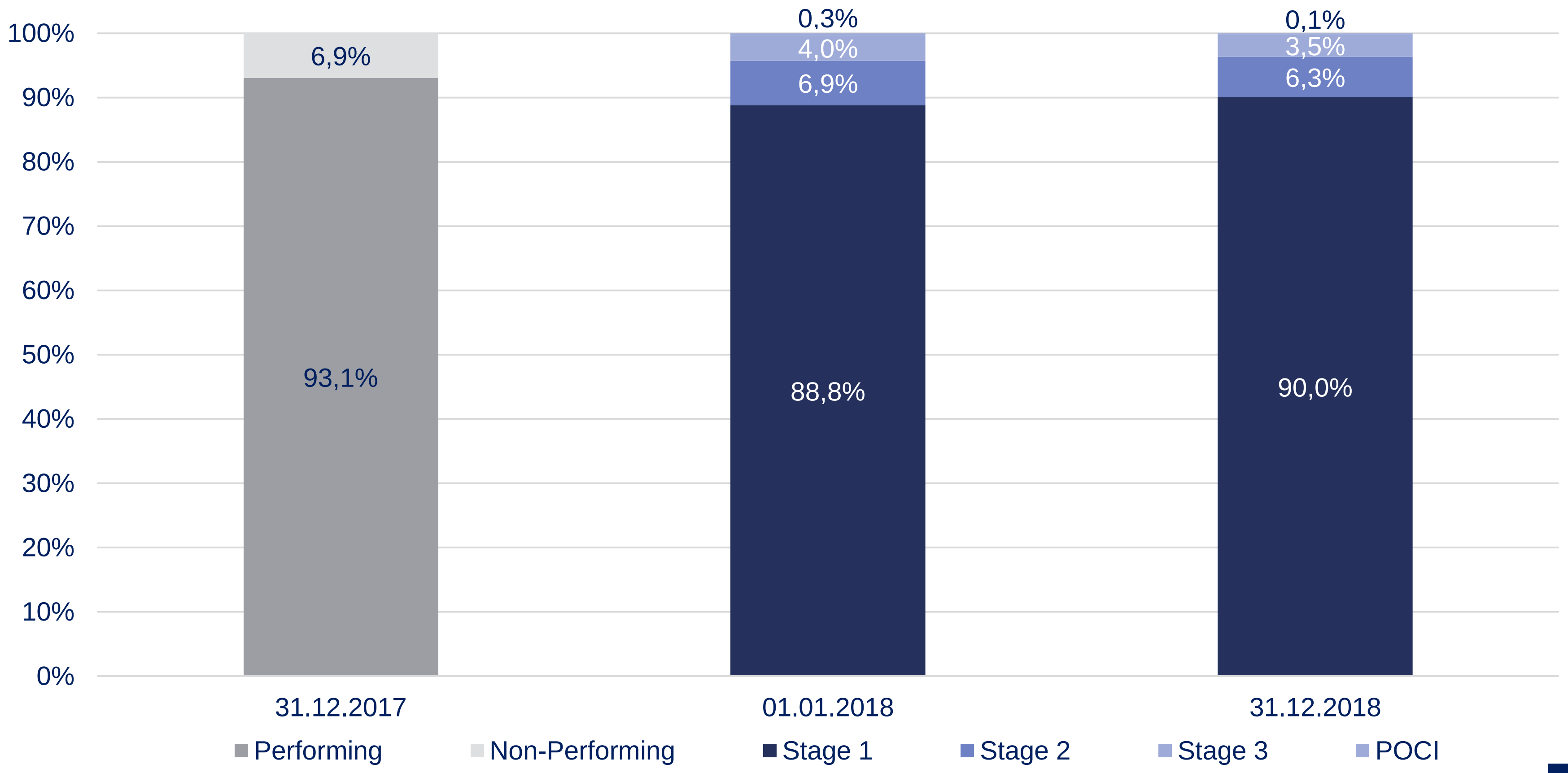
| Mixed | AC | FVPL | FVO | FVOCI Equity | FVOCI Debt | Other |
|---|---|---|---|---|---|---|
| **LaR (AC)** | 97.8% | 45.1% | 15.5% | - | 5.2% | 1.0% |
| **HtM (AC)** | 0.9% | 1.7% | 1.0% | - | 0.3% | - |
| **HfT (FVPL)** | 0.1% | 47.0% | - | 2.5% | 0.3% | - |
| **FVO** | 0.1% | 3.2% | 82.3% | - | 3.6% | 3.2% |
| **AfS (FVOCI)** | 1.1% | 2.5% | 1.2% | 97.5% | 90.6% | - |
| **Other** | - | 0.4% | - | - | - | 95.8% |
| | | | | | | |
| **Portfolio Composition** | 69.4% | 16.9% | 1.8% | 0.4% | 11.0% | 0.6% |

| SA | AC | FVPL | FVO | FVOCI Equity | FVOCI Debt | Other |
|---|---|---|---|---|---|---|
| **LaR (AC)** | 97.8% | 14.1% | - | - | 4.8% | - |
| **HtM (AC)** | 1.5% | - | - | - | 0.6% | - |
| **HfT (FVPL)** | - | 62.2% | 5.9% | 0.1% | - | - |
| **FVO** | 0.1% | 3.3% | 87.1% | - | 0.2% | - |
| **AfS (FVOCI)** | 0.7% | 19.7% | 6.9% | 99.9% | 94.3% | - |
| **Other** | - | 0.6% | - | - | 0.1% | 100.0% |
| | | | | | | |
| **Portfolio Composition** | 95.5% | 1.4% | 0.1% | 0.1% | 2.9% | 0.0% |

# IMPAIRMENT EFFECTS – YEAR END TO YEAR END

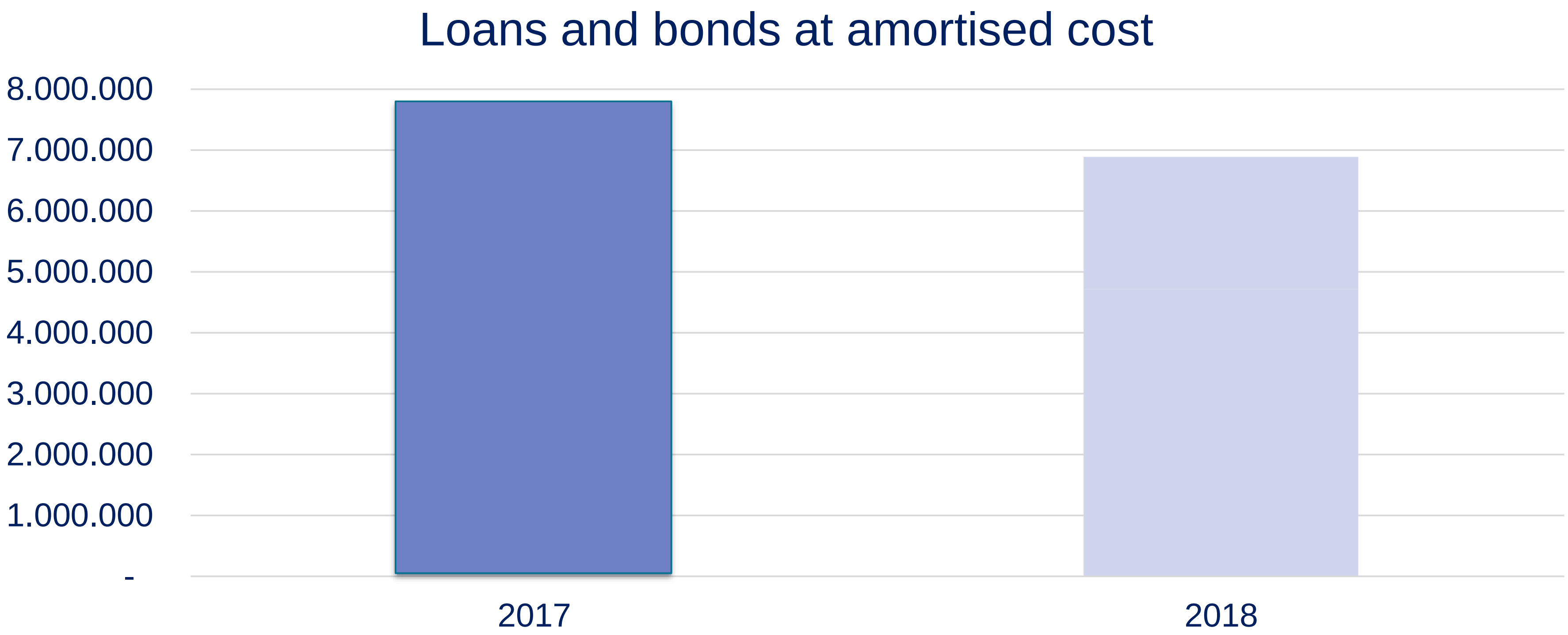
## Stage composition

### Impairment stages of outstanding loans (Stage 1, 2, 3 and POCI)



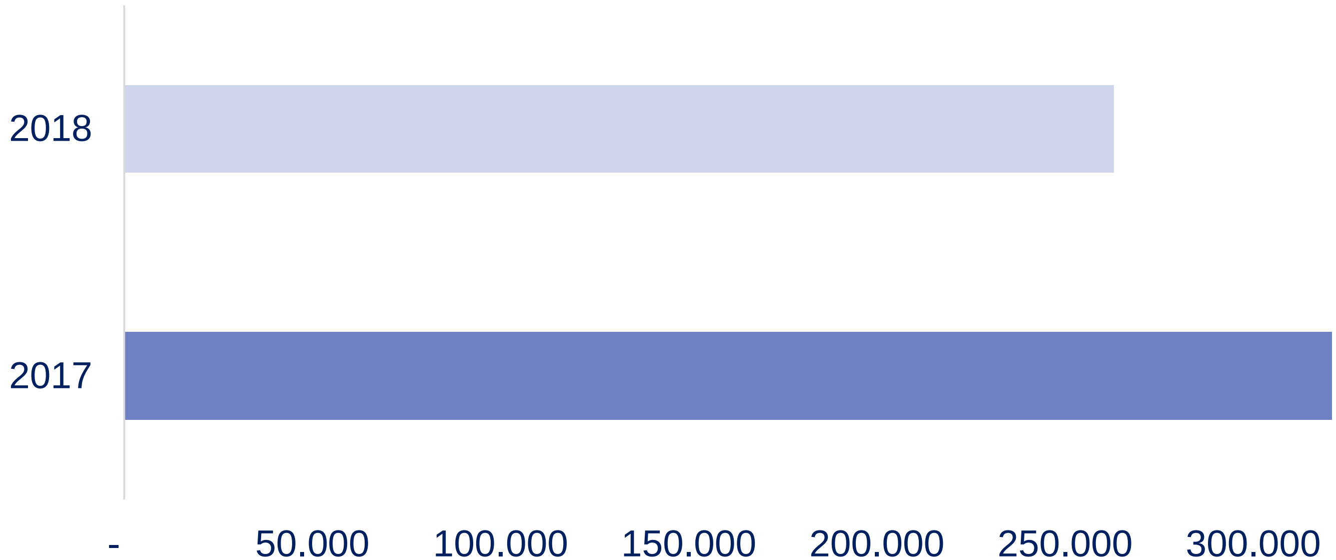
## Year end volume of loans and bonds

Volume of loans and bonds per 2017 and 2018 (year end)



# Loan loss reserve – year end comparison

## Aggregate of loan loss reserves (in millions – year end) – overview




Potential reasons (partly taken from reports)

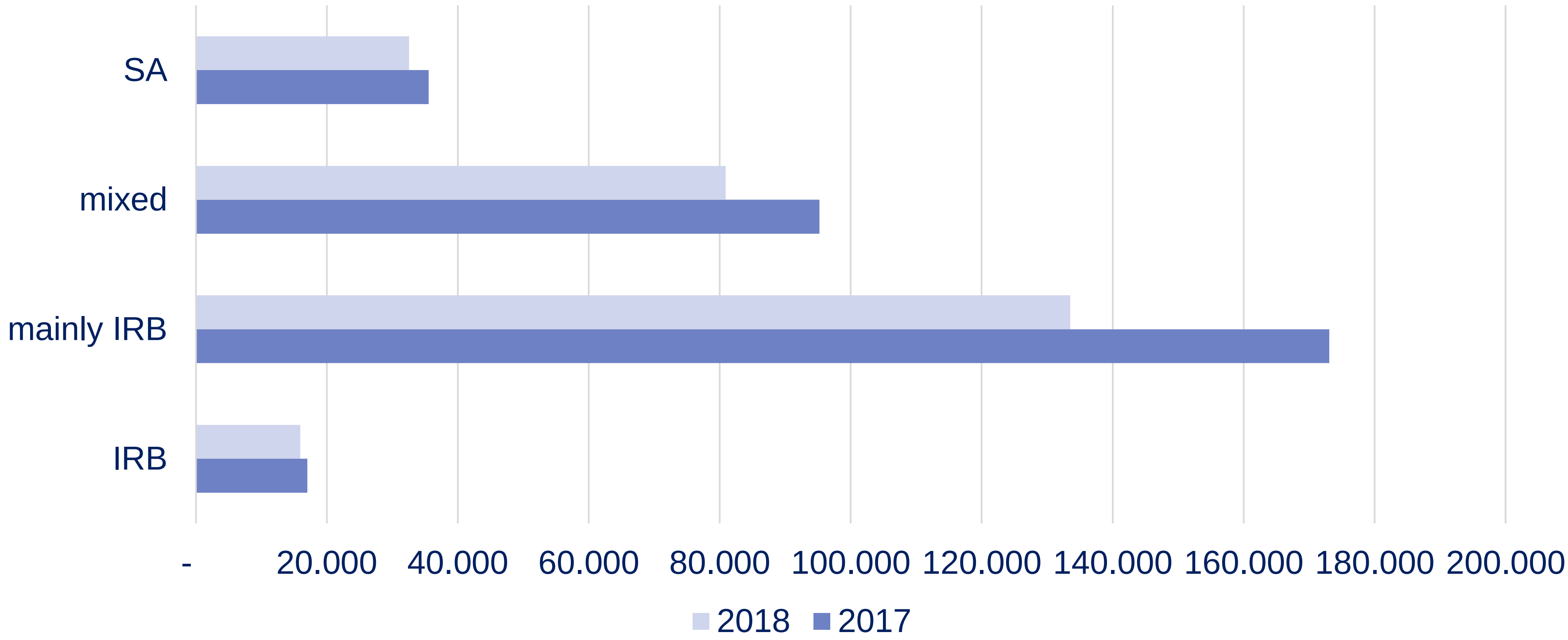
- Reduction of total loans and bonds by 9%
- Stage 2 only account for 6% to 7% of the loan portfolio
- Downturn factors in regulatory measures
- Better economic outlook

Only 61 institutions disclosed this information in a consistent and standardized manner

Loan loss reserves decreased by 36% for Italian institutions, by 9% for French institutions, by 7% for Spanish institutions and increased by 1% for German institutions

# Loan loss reserves and credit rating models

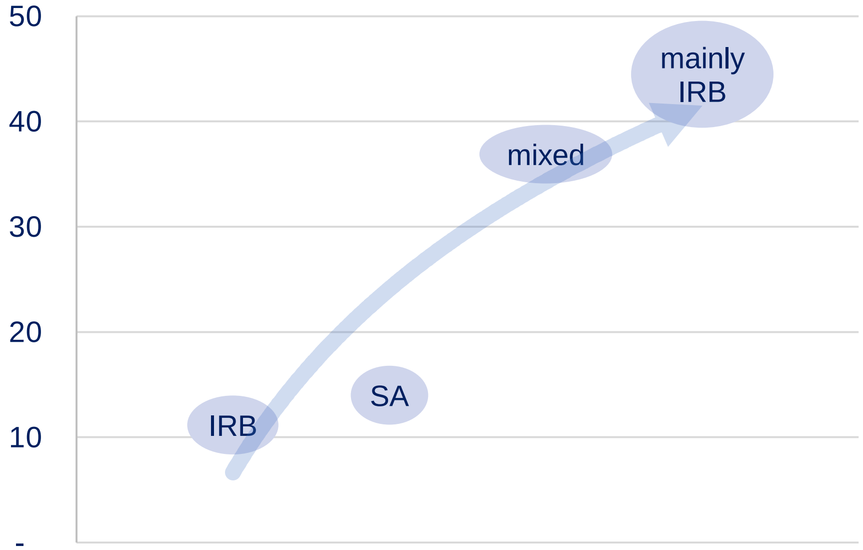
## Aggregate of loan loss reserves (in millions – year end) – credit rating models



# CET1 AND EQUITY EFFECTS – 31.12.2017 AND 01.01.2018

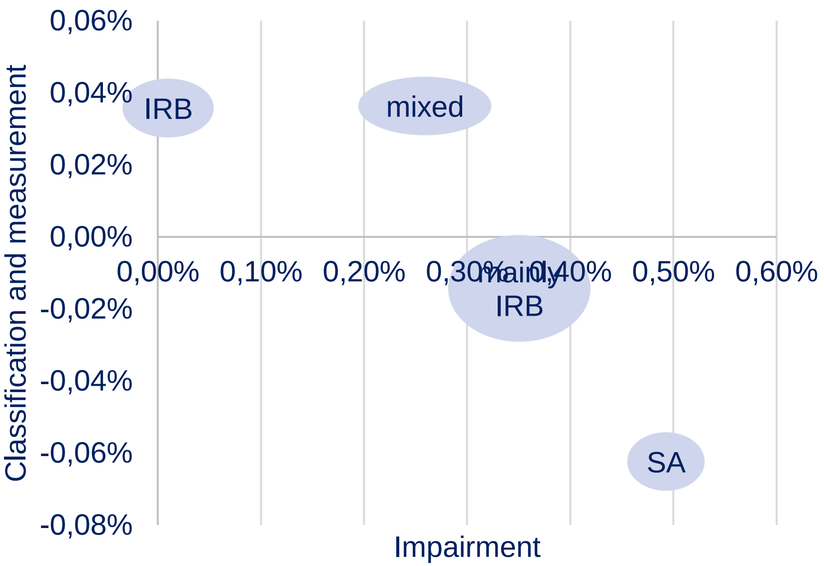
# General CET1 and equity effects

## CET1 effect (in bps) (negative)




- Negative 30 basis points on average
- 72% of the banks with negative effect
- 47% reduction between 0 and 50 bps
- Range – positive 540 bps Dexia, negative 373 bps National Bank of Greece

## Equity (classification/impairment)

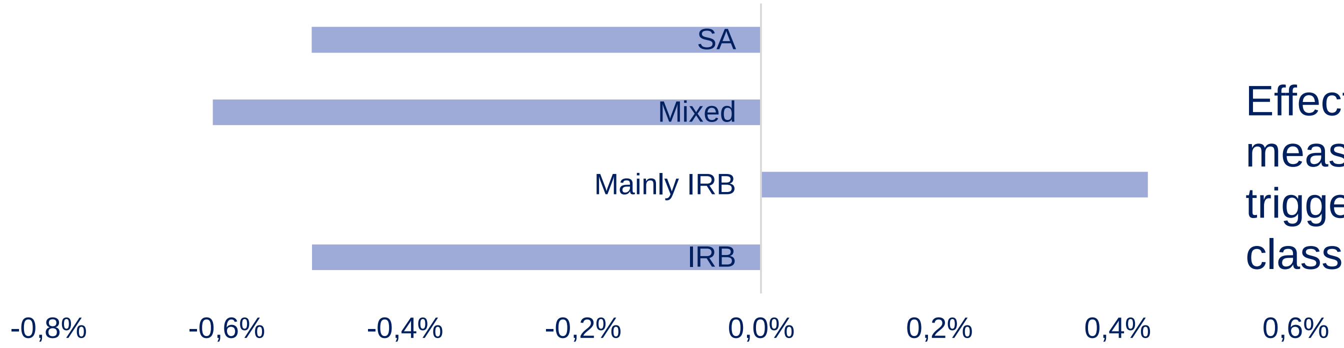


# Equity effect

## Impact of classification and measurement and impairment on equity (millions)

# Equity effects according to credit rating model

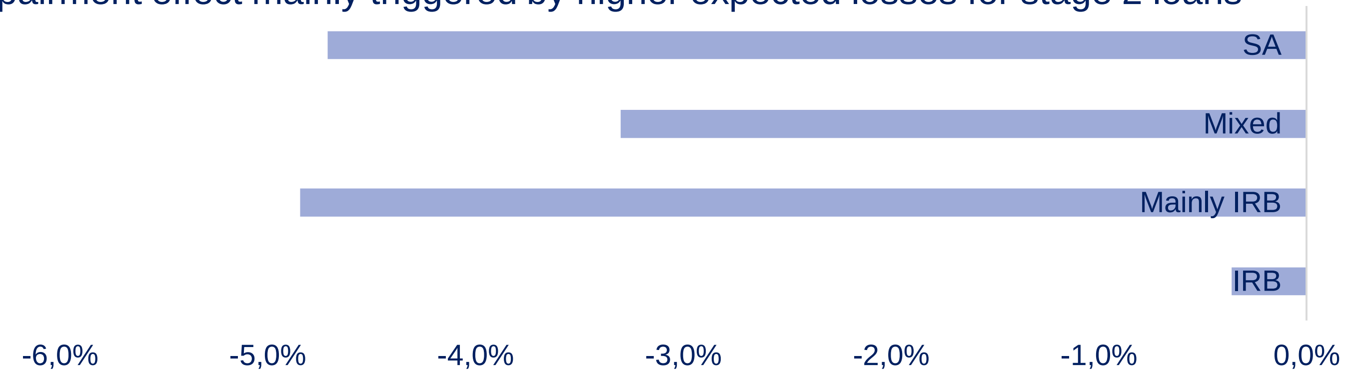
## Classification and measurement effect on equity




Effect due to re-measurements triggered by re-classifications

## Impairment effect on equity (increase in loan loss reserves)

Impairment effect mainly triggered by higher expected losses for stage 2 loans




Decrease of loan loss reserves by 23% for banks mainly IRB, by 15% for mixed, by 8% for SA and by 6% for IRBA

Banks using the SA account significantly more items at AC (96%) than mixed (69%) and IRBA (74%)

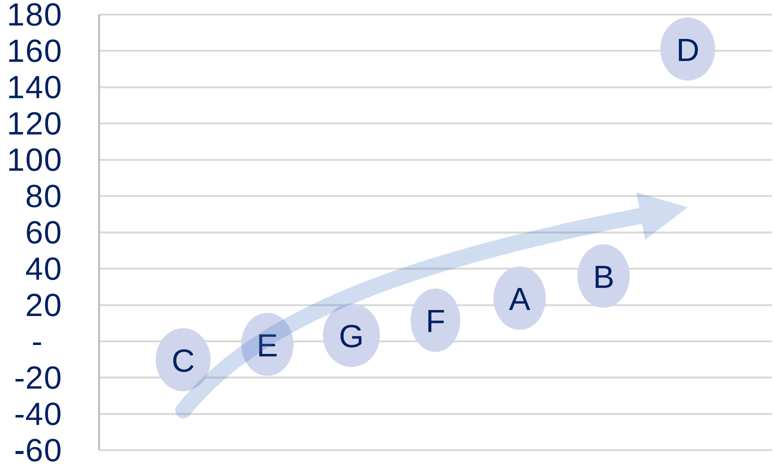
# Country – composition of the sample

## Sample clustering per country

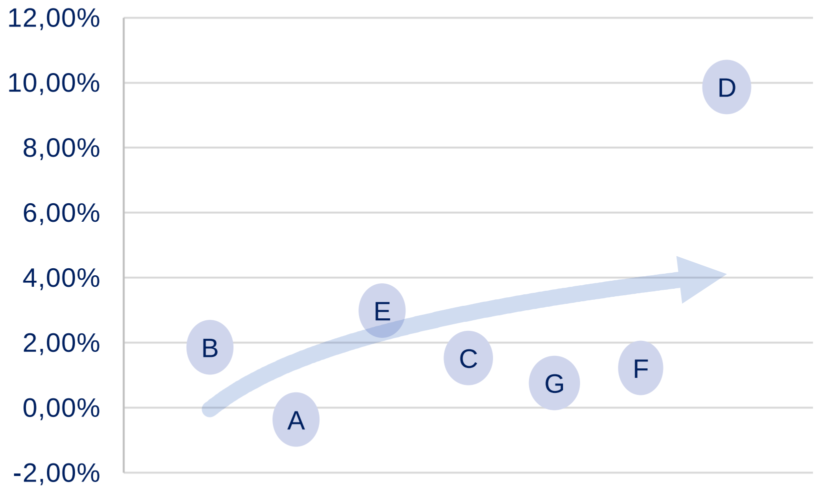
| Country Cluster | Assigned Countries | # Institutions |
|---|---|---|
| A: Germany | GER | 12 |
| B: Spain | SPA | 11 |
| C: France | FRA | 8 |
| D: Italy | ITA | 7 |
| E: high PDI, high UAI | BEL, CYP, GRE, MLT, POR, SLK, SLV | 15 |
| F: low PDI, low LTO | AUT, EST, LAT, NET, LIT, LUX | 19 |
| G: low PDI, low UAI, low LTO | FIN, IRE | 6 |

# General CET1 and equity effects

## Negative CET1 country effect (in bps)




## Negative equity effect per country

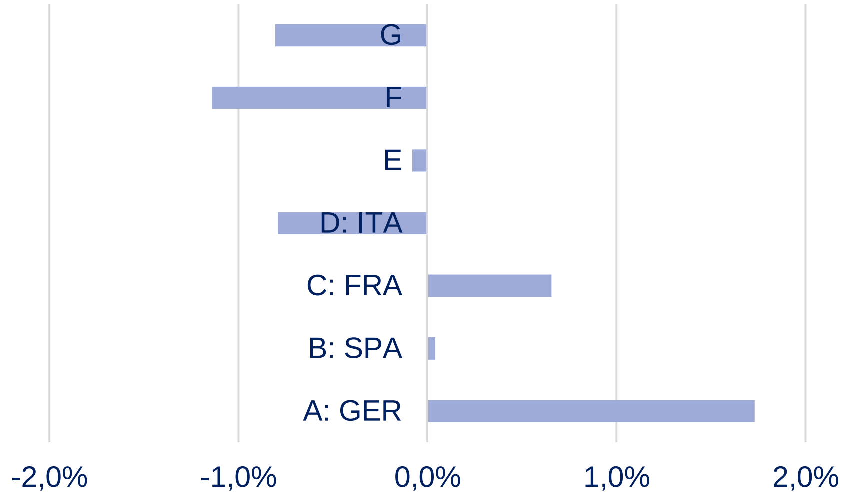



A – Germany B – Spain C – France D – Italy

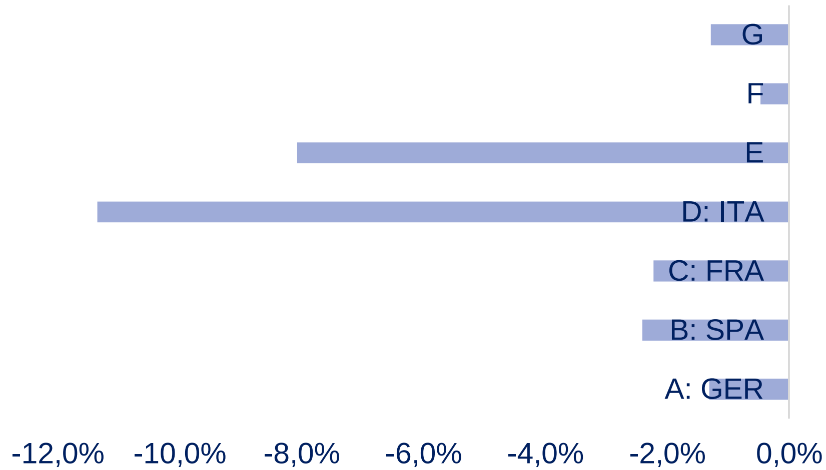
86% of all Italian institutions apply a mixed credit rating model or mainly IRBA

# Equity effects – country specifics

Classification and measurement effect on equity

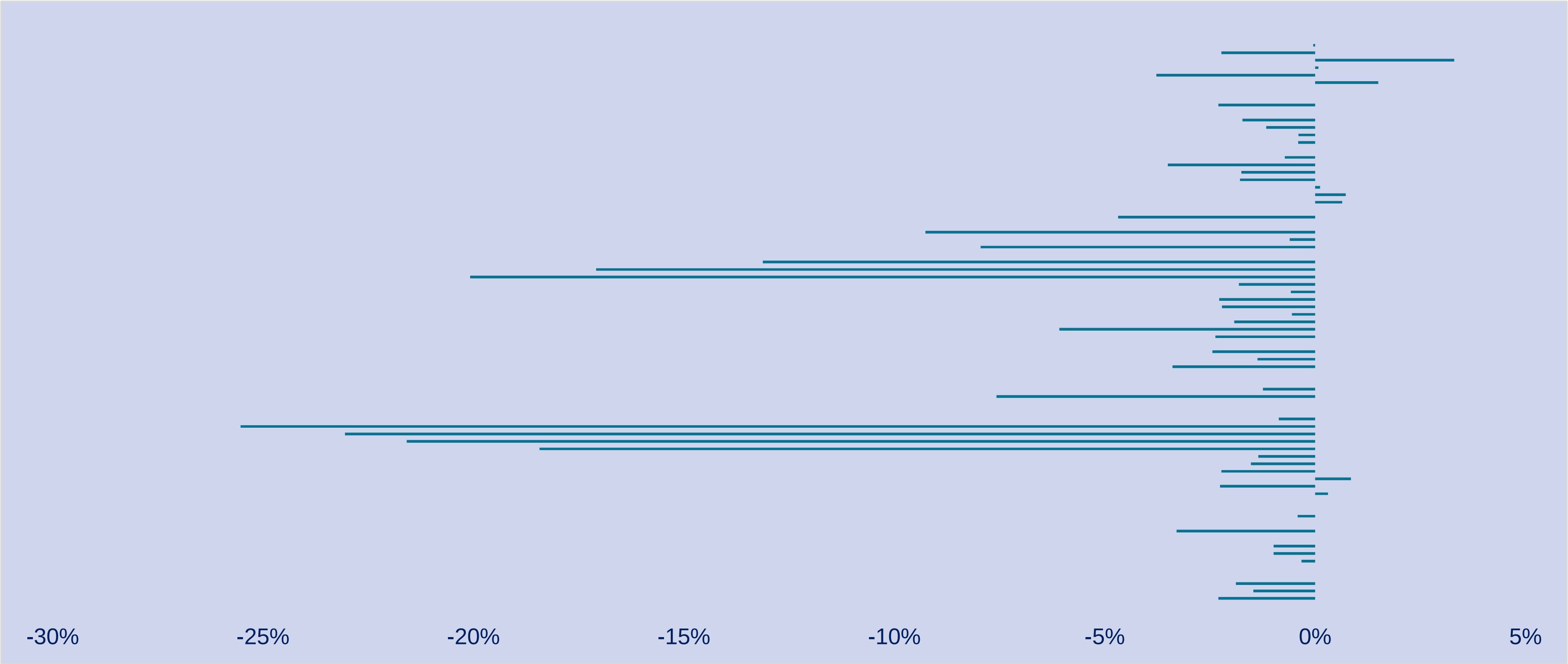



Impairment effect on equity



## Impairment effect regarding all institutions

### Impairment in million divided by total equity per institution (in %)




Four banks (three from Greece and one from Italy) lost slightly more than one fifth of their equity due to impairment effects and high shares of stage 2 and stage 3

# FURTHER RESEARCH

# Areas of current research

- Changes from long term to short term lending and investing before adopting IFRS 9?
  - First research indicates slight increase in long term investments from 2014 till 2018
- Usage of category fair value through OCI for equity instruments and anticipated change in business activity
  - Banks hardly use equity instruments
  - First research indicates no reduction in investments in equity
- Disclosure quality on impact of Covid 19 on financial instruments
  - First research indicates poor disclosure quality (end of 2019, Q1, Q2)
- Stage transfer due to Covid 19 (Q1, Q2, Q3, end of 2020) (stage 2, 3)

Thank you very much for your attention