

ECL DISCLOSURES AND BANKING INDUSTRY: EMPIRICAL RESEARCH ON RISK IMPACT

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Información Financiera y Normalización Contable.

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ECL disclosures and banking industry: empirical research on risk impact

Our study investigates whether the Expected Credit Loss model is better than the Incurred Credit Loss model in anticipating overall banking risks over the period 2015-2021 in Europe. We find that loan loss provisions (LLPs) from the ECL model outperform those from the ICL model, and the Loan Loss Allowance (LLA) of Stage 2 serves as a reliable predictor of future banking risks. However, the predictive effect of LLPs and Stage 2 LLA on banking risks is diminished due to the COVID-19 pandemic's moratorium guidelines.

Keywords: banking risk; expected credit loss; IFRS 9; stages; moratoria