EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Press release

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Overall amount of unrealised losses in euro area banks' bond portfolios contained

- ECB-supervised banks held €73 billion of net unrealised losses in their bond portfolios in February 2023
- In the short term, losses calculated under current and stressed market conditions would materialise only in the unlikely event that banks had to sell such securities

A data collection exercise published today by the European Central Bank (ECB) shows that euro area banks under its supervision had net unrealised losses of around €73 billion in their bond portfolios held at amortised cost in February 2023, an overall contained amount.

The ECB collected the data jointly with the European Banking Authority (EBA) in the second quarter of this year. The exercise covered bonds held at amortised cost and at fair value through other comprehensive income. Supervisors gathered information on the carrying and fair-value amounts of these portfolios. The carrying amount is the value as recorded on a bank's balance sheet, while the fair value is an estimate of the actual market price. The collection also included indicators on investments seeking to offset potential losses, or hedges, and the sensitivity of bond portfolios to interest rate changes and credit spreads.

Unrealised losses are the difference between the carrying amount and fair value of debt securities at a given date. Net losses also include adjustments stemming from hedges. They are not recognised in banks' profit and loss statements or balance sheets because of their different accounting treatment resulting from a longer investment horizon. In the short-term, losses would materialise only in the unlikely event that banks had to sell such securities. Notably, even in distressed market conditions, banks are unlikely to sell such securities outright and would rather raise liquidity through other channels such as repo transactions with other banks or a central bank.

Gross unrealised losses rose gradually after December 2021, reaching approximately €124 billion in December 2022. Over the same period, banks increasingly used hedges to offset these unrealised

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losses. After accounting for hedges, the aggregate level of interest rate risk exposure from bonds appears relatively contained as of February 2023. The analysis showed that net unrealised losses would increase by an additional €155 billion if the adverse market risk scenario of the 2023 EU-wide stress test were to materialise. Therefore, the ECB asks banks to devote due attention to interest rates risk strategies.

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Notes

- The sample of banks participating in this data collection was the same as in the 2023 stress test. For the euro area, it consisted of 57 larger banks in the EBA sample and 41 medium-sized banks.
- The ECB published selected bank-specific data points from this exercise.

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