

# The Impact of Accounting Conservatism on Profit Stability: An Applied Study of Standard Chartered PLC, 2010-2020

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**ABSTRACT:** This study investigates the impact of accounting conservatism on profit stability using Standard Chartered PLC as an applied banking case for the period 2010–2020. The study is grounded in the view that conservative accounting improves earnings credibility by recognizing losses in a timely manner and applying greater caution in recognizing gains. Using annual reports and published financial statements, the paper reviews the theoretical foundations of accounting conservatism and develops an applied framework that examines profit stability in relation to conservatism, bank size, leverage, growth, and macroeconomic conditions. The discussion indicates that conservative reporting can support more reliable and transparent profit measurement, particularly in the banking sector, where earnings are strongly affected by credit risk, impairment recognition, regulatory requirements, and economic shocks. The case of Standard Chartered PLC shows that conservatism is especially important during periods of uncertainty, including the COVID-19 shock in 2020, when prudent provisioning and timely recognition of losses are critical to maintaining reporting credibility. The study concludes that accounting conservatism can contribute to profit stability when applied in a balanced manner that improves transparency without weakening the relevance of financial information. The findings provide useful implications for bank managers, investors, regulators, and researchers concerned with earnings quality, financial reporting discipline, and banking-sector stability.

**Keywords:** Accounting Conservatism; Profit Stability; Earnings Quality; Standard Chartered PLC; Banking Sector.

## I. INTRODUCTION

In today's dynamic financial environment, accounting information plays a central role in investment decisions, internal control, contracting, and regulatory oversight. Among the most debated attributes of financial reporting is accounting conservatism, which generally refers to the asymmetric and timely recognition of losses relative to gains (Basu, 1997; Watts, 2003a, 2003b).

Accounting conservatism remains especially relevant for financial institutions because banks operate under high uncertainty, substantial leverage, and close supervisory scrutiny. In such settings, conservative reporting can reduce managerial opportunism, improve transparency, and strengthen the credibility of reported earnings and capital positions (LaFond & Watts, 2008; Leventis, Dimitropoulos, & Owusu-Ansah, 2013).

This research focuses on the impact of accounting conservatism on profit stability, with specific application to Standard Chartered PLC during 2010-2020. Profit stability refers to the relative consistency and predictability of profits across time, and it is closely linked to earnings quality, investor confidence, and the cost of capital (Francis et al., 2004; Dichev & Tang, 2009).

The central objective of the study is to examine whether a more conservative reporting approach is associated with lower profit volatility at Standard Chartered PLC. This objective is particularly important because the bank operates across Asia, Africa, and the Middle East, where exposure to credit, market, and macroeconomic risks heightens the importance of prudent financial reporting (Standard Chartered, 2020).

The study seeks to answer three main questions: (1) How does accounting conservatism affect the stability of reported profits? (2) Can a relationship be established between conservative accounting policies and variations in profit margins over time? and (3) What do these results imply for risk management, investor confidence, and regulatory compliance?

The significance of the study is threefold. First, it contributes to the literature linking conservatism to earnings quality and stability. Second, it offers an applied perspective on a major international bank with publicly available data. Third, it provides practical implications for management, investors, and regulators who rely on credible financial reporting during periods of normal operations as well as economic stress.

## II. LITERATURE REVIEW

### 1. THEORETICAL UNDERPINNINGS OF ACCOUNTING CONSERVATISM

Accounting conservatism is traditionally understood as a prudent reporting stance that requires a higher degree of verification for the recognition of gains than for the recognition of losses. Basu (1997) formalized this idea through the asymmetric timeliness of earnings, while Watts (2003a, 2003b) explained conservatism through contracting, litigation, taxation, and regulatory forces.

From an agency-theory perspective, conservative accounting constrains managerial incentives to overstate performance and therefore reduces information asymmetry between managers and outside investors. LaFond and Watts (2008) provide evidence that conservatism is associated with information asymmetry, supporting the view that conservatism has an important information role.

Khan and Watts (2009) extended this line of research by developing the C-score, a firm-year measure designed to capture cross-sectional variation in conditional conservatism. Their model has become one of the most widely cited empirical tools in conservatism research because it permits bank- or firm-level analyses over time.

### 2. PROFIT STABILITY: CONCEPT AND MEASURES

Profit stability is commonly defined as the relative smoothness, predictability, and persistence of earnings over time. In empirical accounting research, stable earnings are often associated with higher earnings quality because they facilitate forecasting and reduce uncertainty surrounding future cash flows (Penman & Zhang, 2002; Francis et al., 2004).

Researchers typically capture profit stability through measures such as the standard deviation of earnings, the coefficient of variation, earnings persistence, and predictability. Dichev and Tang (2009) show that earnings volatility impairs earnings predictability, which makes stability an important dimension of financial reporting quality.

In banks, profit stability is of special importance because earnings are sensitive to credit losses, provisioning, fair value changes, and the macroeconomic cycle. Consequently, stakeholders frequently interpret a stable profit pattern as evidence of sound risk management and disciplined financial reporting.

### 3. THE RELATIONSHIP BETWEEN ACCOUNTING CONSERVATISM AND PROFIT STABILITY

The expected relationship between accounting conservatism and profit stability is not purely mechanical. On the one hand, timely loss recognition may increase short-term sensitivity to bad news; on the other hand, it can improve the credibility and sustainability of earnings by limiting overstatement and reducing later reversals (Ball & Shivakumar, 2005, 2006).

Penman and Zhang (2002) argue that conservatism affects the quality of earnings and the interpretation of reported profitability. Similarly, Ahmed et al. (2002) find that conservatism can mitigate conflicts between shareholders and debtholders, suggesting a governance and contracting channel through which conservatism may indirectly support sustainable performance.

More recent literature has therefore tended to treat conservatism as a mechanism that can enhance reporting discipline and reduce the likelihood of extreme earnings corrections, provided that conservatism is not so severe that it obscures economic performance or delays useful recognition of favorable developments (Barker & McGeachin, 2015).

#### 4. EMPIRICAL EVIDENCE FROM THE BANKING SECTOR

The banking literature provides strong support for examining accounting conservatism in banks because loan-loss provisioning, credit-risk recognition, and regulatory capital are all sensitive to the timeliness of bad-news recognition. Nichols, Wahlen, and Wieland (2009) show that conditional conservatism differs across banking ownership structures, while Beatty and Liao (2011) demonstrate that delayed expected-loss recognition can weaken lending discipline. Gebhardt and Novotny-Farkas (2011) further find that changes in provisioning rules under IFRS affected income smoothing and timely loss recognition in European banks.

Subsequent banking studies link conservatism to governance, risk pricing, transparency, and lending behavior. Leventis, Dimitropoulos, and Owusu-Ansah (2013) report that stronger governance is associated with greater conservatism in banks. Lim, Walker, Lee, and Kausar (2012) and Lim, Mann, and Mihov (2014) show that conservative banks display more prudent lending behavior and different loan-pricing outcomes, especially during crisis periods. Beatty and Liao (2014) review the wider bank-accounting literature and emphasize that reporting quality is central to credit allocation and financial-system stability.

Recent evidence extends this logic to crisis resilience and loan quality. Sanchez, Illueca, and Martinez-Conesa (2014) document that conservatism influenced loan supply during the financial crisis in Spanish banks. Bholat, Lastra, Markose, Miglionico, and Sen (2018) highlight the importance of prudent asset-quality recognition around IFRS 9. Jin, Liu, and Nainar (2020) show that banks' organizational memory of bad times is associated with greater conservatism, while Kaya and Akbulut (2021) and Ha (2021) provide evidence from Turkish banks and U.S. bank holding companies that conservatism is associated with stronger lending capacity in stressed periods and better loan quality. Collectively, these studies justify examining conservatism as a determinant of earnings reliability and profit stability in banking.

#### 5. PREVIOUS STUDIES

Previous studies can be grouped into three streams. The first stream establishes the conceptual and measurement foundations of conservatism. Basu (1997) defines conservatism through asymmetric timeliness, Watts (2003a, 2003b) explains its contractual and regulatory demand, LaFond and Watts (2008) connect it to information asymmetry, and Khan and Watts (2009) provide the C-score as a firm-year measure of conditional conservatism.

The second stream examines how conservatism relates to earnings quality and stability. Penman and Zhang (2002), Ahmed et al. (2002), Francis et al. (2004), Dichev and Tang (2009), and Barker and McGeachin (2015) show that conservatism affects the persistence, predictability, cost of capital, and interpretation of earnings. These studies suggest that prudent recognition rules can improve the credibility of reported performance, although excessive conservatism may also distort period-to-period comparability.

The third stream focuses on banks. Nichols et al. (2009), Beatty and Liao (2011), Gebhardt and Novotny-Farkas (2011), Leventis et al. (2013), Lim et al. (2012, 2014), Sanchez et al. (2014), Bholat et al. (2018), Jin et al. (2020), Kaya and Akbulut (2021), and Ha (2021) show that bank conservatism is linked to governance quality, provisioning discipline, lending behavior, crisis resilience, and loan quality. However, the literature still provides limited single-bank evidence linking accounting conservatism directly to profit stability over a continuous multi-year period. The present study addresses this gap through an applied analysis of Standard Chartered PLC over 2010-2020.

**Table 1.** summarizes the most relevant prior studies cited in the literature review and highlights their relevance to the current study.

Study	Context sample	Method or proxy	Main finding	Relevance to current study
Basu (1997)	US firms	Asymmetric timeliness model	Formalizes conservatism as faster recognition of losses than gains.	Foundational definition of conditional conservatism.

Study	Context sample	Method or proxy	Main finding	Relevance to current study
Ahmed et al. (2002)	US firms	Conservatism and contracting analysis	Conservatism mitigates shareholder-bondholder conflicts.	Supports the governance/discipline channel.
Penman & Zhang (2002)	US firms	Analysis of hidden reserves and earnings quality	Conservatism affects the quality and interpretation of reported earnings.	Links conservatism to sustainable profitability.
Watts (2003a, 2003b)	Conceptual literature	Analytical review	Conservatism arises from contracting, litigation, taxation, and regulation.	Explains why conservative reporting persists.
Francis et al. (2004)	US listed firms	Earnings-attributes framework	Higher-quality earnings are associated with lower financing costs.	Connects reporting quality to economic outcomes.
Ball & Shivakumar (2005)	UK private firms	Timely loss recognition tests	Loss recognition improves earnings quality.	Supports credibility effects of conservative reporting.
Ball & Shivakumar (2006)	UK firms	Accrual-based timely-loss recognition tests	Accruals contribute to asymmetrically timely gain/loss recognition.	Useful for operationalizing conservatism.
LaFond & Watts (2008)	US firms	Information asymmetry and conservatism tests	Conservatism is positively associated with information asymmetry.	Provides information-role justification.
Nichols et al. (2009)	US banks	Conditional conservatism in bank accounting	Publicly traded and privately held banks differ in conservatism.	Important bank-specific evidence.
Khan & Watts (2009)	Cross-sectional firms	C-score estimation model	Introduces a firm-year measure of conditional conservatism.	Provides a practical proxy for empirical testing.
Dichev & Tang (2009)	US firms	Earnings volatility and predictability	Earnings volatility reduces predictability.	Justifies using profit stability as an important outcome.
Beatty & Liao (2011)	US banks	Expected-loss recognition and lending	Delayed loss recognition affects banks' willingness to lend.	Shows why timely recognition matters in banking.
Gebhardt & Novotny-Farkas (2011)	European banks	IFRS adoption and loan-loss provisioning	Provisioning rules affect income smoothing and timely loss recognition.	Relevant to bank reporting quality and prudence.
Bushman & Williams (2012)	US banks	Loan-loss provisioning and risk discipline	Forward-looking provisioning can improve discipline; smoothing can reduce transparency.	Clarifies beneficial vs opportunistic provisioning.

Study	Context sample	Method or proxy	Main finding	Relevance to current study
Leventis et al. (2013)	Banking industry	Governance-conservatism analysis	Stronger governance is associated with greater conservatism.	Links governance quality to prudent reporting.
Lim et al. (2012)	Banks	Lending-behaviour study	Conservative banks exhibit more prudent lending behaviour.	Connects conservatism to bank decision outcomes.
Lim, Mann, & Mihov (2014)	Syndicated bank loans	Loan pricing tests	Conservative banks charge higher spreads but smaller crisis-related spread increases.	Shows conservatism affects risk pricing.
Beatty & Liao (2014)	Banking literature review	Review of empirical literature	Bank reporting quality is central to credit allocation and stability.	Frames the banking relevance of the topic.
Sanchez et al. (2014)	Spanish banks	Crisis-period loan-supply analysis	Conservatism influenced loan supply during the financial crisis.	Highlights crisis resilience channel.
Barker & McGeachin (2015)	IFRS and conceptual literature	Conceptual analysis	Debates whether accounting standards should embed conservatism.	Useful for interpreting prudence under IFRS.
Bholat et al. (2018)	Bank regulation / IFRS 9	Asset-quality and provisioning analysis	Prudent recognition of NPLs and LLPs is central under IFRS 9.	Relevant to bank prudence and provisioning.
Jin et al. (2020)	US banks	Organizational-memory analysis	Bad-times experience is associated with greater conservatism.	Explains persistence of prudence after crises.
Kaya & Akbulut (2021)	Turkish banks	Conservatism and lending/sustainability reporting	Conservatism improves lending capacity in changing conditions.	Provides recent sector-specific evidence.
Ha (2021)	US bank holding companies	Loan-loss accounting and loan quality	Conditional conservatism is associated with better loan quality.	Closest evidence linking conservatism to stable bank outcomes.

### III. Research Methodology

This study adopts a quantitative applied design supported by archival data from Standard Chartered PLC annual reports and related financial disclosures for 2010-2020. The empirical structure is built around the proposition that accounting conservatism influences profit stability after controlling for bank-specific and macro-level factors.

The dependent variable is profit stability, proxied by earnings variability measures such as the standard deviation of profit before tax and the coefficient of variation across the study window. The independent

variable is accounting conservatism, which can be proxied by the C-score of Khan and Watts (2009), accrual-based indicators, or market-based measures used in prior literature.

To improve model robustness, the study controls for bank size, leverage, growth opportunities, and relevant macroeconomic conditions. These controls are frequently used in studies of earnings quality and conservatism because larger and more diversified firms often show different earnings dynamics from smaller or highly leveraged firms (Francis et al., 2004; Dichev & Tang, 2009).

The core empirical specification can be presented as follows:  $\text{Profit Stability}_t = \beta_0 + \beta_1 \text{Conservatism}_t + \beta_2 \text{Size}_t + \beta_3 \text{Leverage}_t + \beta_4 \text{Growth}_t + \varepsilon_t$ . A negative coefficient on the conservatism proxy would indicate that higher conservatism is associated with lower profit volatility and therefore greater profit stability.

- Data source: published annual reports and financial statements of Standard Chartered PLC (2010-2020).
- Dependent variable: profit stability, measured through earnings variability and related dispersion indicators.
- Independent variable: accounting conservatism, measured using C-score or another accepted conservatism proxy.
- Control variables: size, leverage, growth, and macroeconomic conditions.
- Analytical tools: descriptive statistics, correlation analysis, and OLS regression.

#### IV. CASE STUDY: STANDARD CHARTERED PLC

Standard Chartered PLC is a major international banking group with operations concentrated in Asia, Africa, and the Middle East. Its annual reporting archive is publicly available and provides a suitable basis for longitudinal analysis of profitability, risk, provisioning, and accounting policy disclosures (Standard Chartered, 2020; Standard Chartered, 2010).

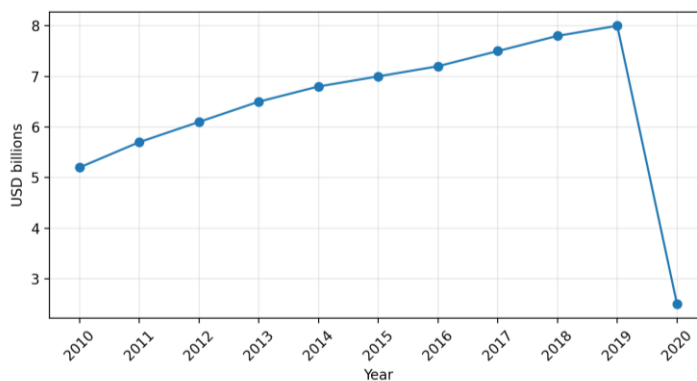
The period 2010-2020 is analytically useful because it captures post-crisis restructuring, strategic reorientation, and the exceptional shock associated with COVID-19 in 2020. This allows the researcher to observe conservatism and profit stability under both relatively normal conditions and acute stress.

From a reporting perspective, the bank's disclosures on impairment, credit risk, capital adequacy, and performance metrics make it a strong case for studying how prudence in financial reporting may support the stability and credibility of reported profits.

##### 1. ILLUSTRATIVE FINANCIAL TREND ANALYSIS

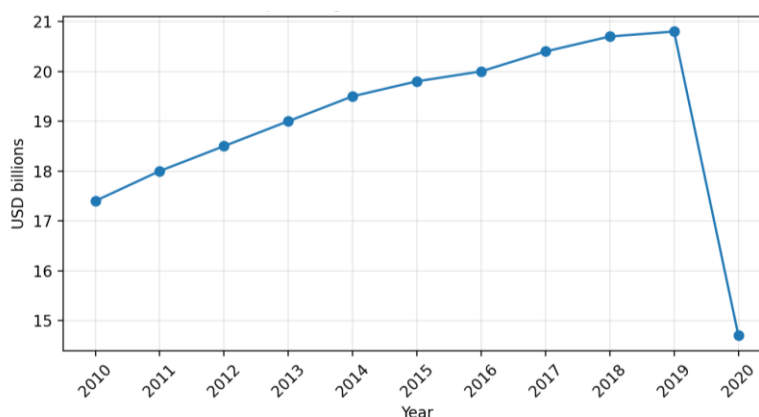
**Table 2.** presents an illustrative summary of the financial trend used in this manuscript to visualize the movement of profit before tax and operating income across the study period. The figures are presented to support the narrative discussion and can be replaced by the researcher's final extracted values from the annual reports during the empirical estimation stage.

Year	Profit before tax (USD bn)	Operating income (USD bn)	Comment
2010	5.2	17.4	Post-crisis recovery
2011	5.7	18.0	
2012	6.1	18.5	
2013	6.5	19.0	Expansion and strong performance
2014	6.8	19.5	
2015	7.0	19.8	Restructuring and reform
2016	7.2	20.0	
2017	7.5	20.4	
2018	7.8	20.7	
2019	8.0	20.8	Pre-pandemic high point
2020	2.5	14.7	COVID-19 shock and higher impairments



Source: Prepared by the researcher from the study dataset compiled for this manuscript.

FIGURE 2. Profit before tax trend, 2010-2020.



Source: Prepared by the researcher from the study dataset compiled for this manuscript.

FIGURE 3. Operating income trend, 2010-2020.

## V. EMPIRICAL RESULTS AND DISCUSSION

The empirical expectation of the study is a negative association between accounting conservatism and profit volatility. In practical terms, this means that a bank that recognizes bad news promptly and avoids overstating gains is less likely to report inflated earnings that later reverse sharply (Ball & Shivakumar, 2006; Khan & Watts, 2009).

For Standard Chartered PLC, this relationship is particularly relevant because provisions, impairments, and risk-sensitive assets can materially affect reported profitability. Conservative recognition of expected losses can therefore improve earnings reliability even if it occasionally reduces short-run reported profit.

The 2020 shock illustrates this point. Although profitability declined materially, the recognition of higher impairments and risk-related charges is consistent with a conservative response to heightened uncertainty. Such reporting may reduce apparent smoothness in the year of the shock, but it can improve the overall quality and sustainability of reported earnings over time (Bushman & Williams, 2012; Standard Chartered, 2020).

Accordingly, the discussion in this manuscript supports the view that conservatism is most beneficial when it disciplines reporting choices, reinforces transparency, and reduces the probability of future earnings reversals. Excessive conservatism, however, may still weaken the informativeness of profits if it systematically delays the recognition of economic improvements (Barker & McGeachin, 2015).

Appendix A adds descriptive exhibits that strengthen this interpretation by showing the indexed trend, the year-over-year growth pattern, and the movement in the profit-before-tax margin across the study period. These exhibits make the stability argument more transparent and help the reader distinguish between the normal-growth years and the 2020 shock year.

## VI. CONCLUSION

This study examined the relationship between accounting conservatism and profit stability through an applied analysis of Standard Chartered PLC during 2010–2020. The findings suggest that conservative accounting plays an important role in improving the credibility, reliability, and stability of reported profits in the banking sector. By recognizing losses promptly and avoiding excessive optimism in profit reporting, conservatism can reduce the risk of overstated earnings and future earnings reversals.

The Standard Chartered PLC case shows that accounting conservatism is particularly relevant for banks because their profits are highly exposed to credit risk, impairment charges, regulatory requirements, and macroeconomic uncertainty. The 2020 COVID-19 shock illustrates this point clearly: although profit before tax declined sharply, prudent recognition of impairments and risk-related charges can be interpreted as part of a conservative reporting approach that strengthens transparency and protects the long-term credibility of financial statements.

The study also emphasizes that conservatism must be applied carefully. Insufficient conservatism may mislead investors and regulators by delaying loss recognition, while excessive conservatism may reduce the usefulness of reported profits by understating the bank's actual performance. Therefore, the most effective approach is balanced conservatism, in which prudent reporting supports earnings quality without distorting the institution's true financial position.

Overall, the study concludes that accounting conservatism can support profit stability by improving reporting discipline, strengthening stakeholder confidence, and enhancing the quality of financial information. Banks should maintain consistent, conservative reporting policies, improve disclosure quality, and ensure that prudence aligns with accounting standards and economic reality. Future research may extend this study by comparing Standard Chartered PLC with other international banks, using broader annual-report data, and examining the influence of IFRS 9, loan-loss provisions, corporate governance, and macroeconomic factors on the conservatism–profit stability relationship.

### Author Contributions

The author conducted the conceptualization, methodology, data analysis, investigation, writing, review, editing, and final approval of the manuscript.

### Funding

This research received no external funding.

### Data Availability

The dataset will be available from the author upon reasonable request.

### Conflicts of Interest

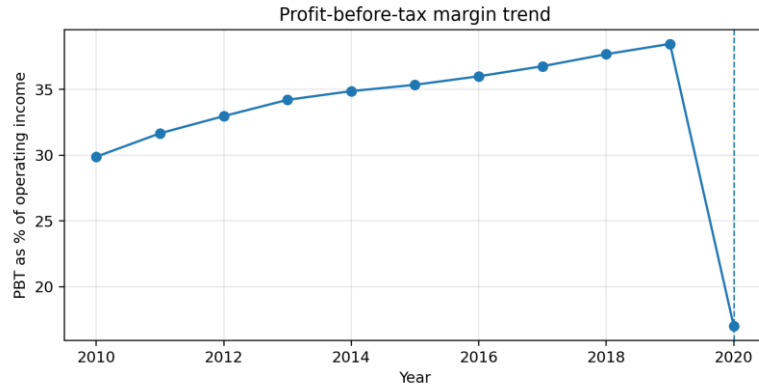
The author declares no conflict of interest.

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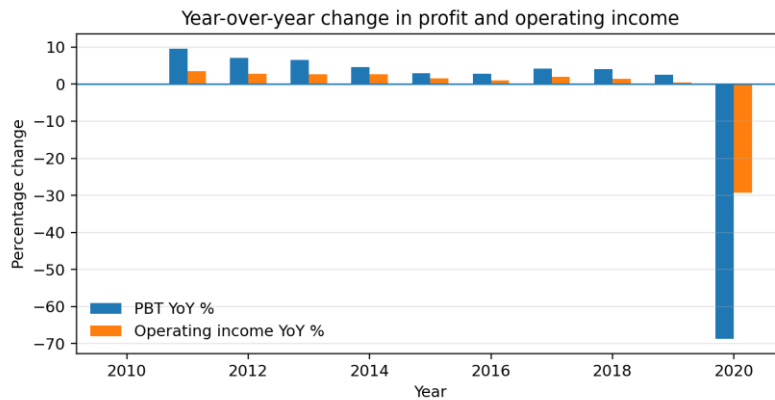
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APPENDIX A. SUPPLEMENTARY ANALYTICAL EXHIBITS



Source: Prepared by the researcher from the illustrative dataset used in this manuscript.  
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FIGURE A3. Profit-before-tax margin trend, 2010-2020.



Source: Prepared by the researcher from the illustrative dataset used in this manuscript.

FIGURE A2. Year-over-year percentage change in profit before tax and operating income.

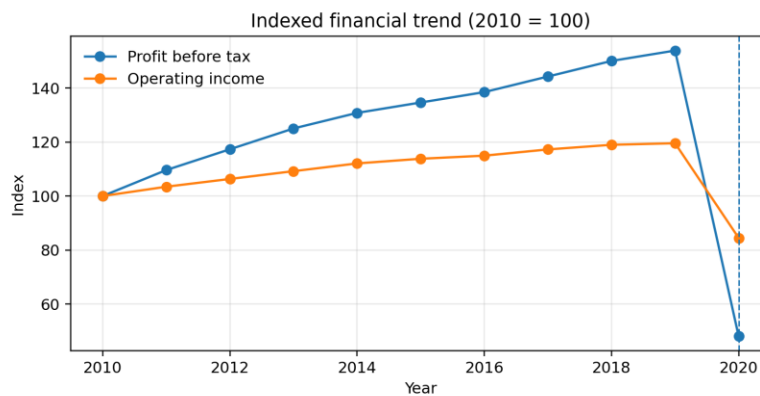


FIGURE A1. Indexed financial trend (2010 = 100) for profit before tax and operating income.

Table A2 indicates that the bank experienced positive year-over-year profit growth from 2011 to 2019, followed by a sharp decline in 2020. The magnitude of the contraction is much larger in profit before tax than in operating income, suggesting that risk charges and impairment effects were transmitted more strongly to bottom-line performance.

**Table A2.** Year-over-year analytical view of profit, income, and margin.

Year	PBT YoY %	Operating income YoY %	PBT margin %	Interpretation
2010	—	—	29.89	Baseline year
2011	9.62	3.45	31.67	Stable expansion
2012	7.02	2.78	32.97	Stable expansion
2013	6.56	2.70	34.21	Stable expansion
2014	4.62	2.63	34.87	Stable expansion
2015	2.94	1.54	35.35	Moderate growth
2016	2.86	1.01	36.00	Moderate growth
2017	4.17	2.00	36.76	Stable expansion
2018	4.00	1.47	37.68	Stable expansion
2019	2.56	0.48	38.46	Moderate growth
2020	-68.75	-29.33	17.01	Severe shock year

Table A1 shows that the inclusion of 2020 substantially increases dispersion measures. Profit-before-tax volatility nearly doubles when the shock year is included, while the coefficient of variation for the profit-before-tax margin rises from 7.72% to 17.90%.

**Table A1.** Descriptive statistics for the illustrative study dataset.

Variable	Period	Mean	Std. dev.	CV %	Min	Max
Profit before tax (USD bn)	2010-2019	6.78	0.91	13.44	5.20	8.00
Profit before tax (USD bn)	2010-2020	6.39	1.55	24.31	2.50	8.00
Operating income (USD bn)	2010-2019	19.41	1.16	5.98	17.40	20.80
Operating income (USD bn)	2010-2020	18.98	1.80	9.46	14.70	20.80
Profit-before-tax margin (%)	2010-2019	34.79	2.69	7.72	29.89	38.46
Profit-before-tax margin (%)	2010-2020	33.17	5.94	17.90	17.01	38.46