KPMG

Covid-19

The here and now for banks

9 April 2020

Welcome - Agenda and speakers

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01 Operational areas of consideration

02 European regulatory view

03 IFRS 9 considerations

04 Steps for portfolio analysis and preventative actions

05 Next steps

Areas of considerations by banks to tackle the COVID-19 challenge

Crisis Management — **Scenario Planning**

Protect our Workforce

Well-Being | Communication | Social Distancing | Triage | Support Parents

Maintain Vital Services

- Scenario planning
  - Early stage
  - Italy/Spain
  - Lockdown
- Service continuity by criticality
- Remote working
- Operational capacity
  - Demand e.g. contact centre
  - Retraining
- Facilitate bank-level staff redeployment
- TPM risks assessments & BCP
  - Tracking service continuity

Support our Customers

- Customer strategy by product
  - Mortgage
  - Personal Loans
  - SME
  - Corporate
  - And value
- Pre-Forbearance policy
- Impact on
  - Capital
  - Liquidity
  - IFRS9
- Policies and procedures
- Tracking of key financial measures
- Stress testing and impact analysis

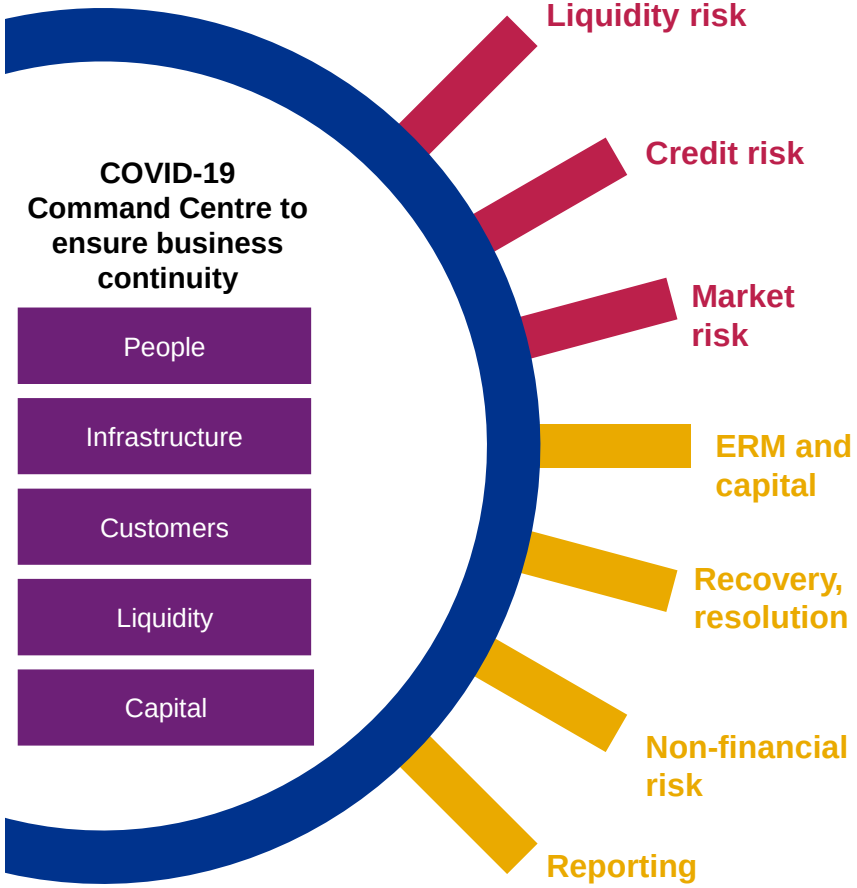
Protect the Balance Sheet

- Forbearance strategy
  - EWI
  - Provisions
  - Treatment
- Process definition
  - New flows
  - Adaptions
- Technology
  - Moratoria
  - Digital enablers
- Data
  - Categorisation
  - Dashboards
- Evidence
  - Avoidance of moral hazard

Meet Regulatory Obligations

- Short term control measures
- Regulatory reporting and aggregation
- Risk frameworks
- Updated risk categories
- Front-line training
- Second line support
- Fast tracked, streamlined credit assessments
- Call recording
- MiFID market abuse controls challenged

COVID-19 – European regulatory view



High impact | Medium impact | Low impact

	Authority		Measure
12/03	ECB	1	Temporary capital and operational relief
	ECB	2	Support bank liquidity conditions and money market activity
	EBA	3	Actions to mitigate the impact of COVID-19 (ST 2020)
13/03	EC	4	Response to counter the economic impact of COVID-19
16/03	EIB	5	Up to EUR 40 billion to fight crisis caused by COVID-19
18/03	ECB	6	EUR 750 billion Pandemic Emergency Purchase Programme
19/03	EC	7	Temporary Framework to support the economy
20/03	ECB	8	Further flexibility to banks in reaction to coronavirus
	EC	9	Fiscal framework's general escape clause
25/03	EBA	10	Prudential framework on DoD, forbearance and IFRS9
	EBA	11	Consumer and payment issues
	EBA	12	Banks' focus on key operations: postponed EBA activities
	ESMA	13	Guidance on accounting implications of COVID-19
27/03	ECB	14	Recommendation on dividend distribution
	ESMA	15	Guidance on financial reporting deadlines
31/03	EBA	16	Supervisory reporting and Pillar 3 disclosures
	EBA	17	Actions to mitigate financial crime risks
	EBA	18	Dividends, share buybacks and variable remuneration
02/04	EBA	19	Guidelines on legislative and non-legislative moratoria
07/04	ECB	20	Complementary package of temporary collateral easing measures

IFRS 9 considerations

IFRS 9 related ECB measures and impacts on COVID-19

1. **ECB measures: To avoid excessive procyclicality of financial statements, the ECB also recommends:**
   - Institutions to implement the transitional IFRS 9 arrangements foreseen in the CRR (Article 473(a) of the CRR)
   - Institutions to give a greater weight to long-term stable outlook evidenced by past experience when estimating long-term expected credit losses for the purposes of IFRS 9 provisioning policies (i.e. taking into account the relief measures granted by public authorities such as payment moratoriums)
   - The ECB will also provide central macroeconomic scenarios to support banks in applying IFRS 9 provisioning policies
2. **IFRS 9 impacts on provisioning levels and capital numbers**
   - Expected impacts on provisioning levels and capital numbers:
     - Provisioning levels might triple or even quadruple if a severely adverse economic scenario, similar to the financial crisis of 2008-09, will be fully factored into IFRS 9 estimates
     - Analysis suggests that banks' capital ratios could be reduced by up to 1.5 – 2% (percentage points) in a severely adverse and up to 2.5 – 3.0% in a 2008-09 financial crisis-like scenario
3. **Macro-economic scenarios:**
   - The impact of a Covid19-recession will be different to common downturn scenarios - with sudden stress on specific industries (for example, airlines, hospitality) and milder or even positive impacts on others (for example, digital communication services). The impact on retail portfolios will differ significantly by geography, depending on how quickly the virus spreads and the impact of containment measures. Banks will be well-advised to adjust their model-based estimates based on careful analysis of their portfolios
4. **What shall banks do:**
   - Banks shall immediately assess the impact of various economic scenarios by using their own models and by applying their own IFRS 9 accounting framework to update forecasts
   - In addition to macroeconomic scenarios, these scenarios should also consider pandemic-specific considerations (including containment actions) which capture microeconomic impacts on borrowers (either at the industry/geography-level or, where appropriate, at the name level), adjusting estimates to the specific scenario playing out. Institutions should also carefully communicate and comment on their disclosure of IFRS 9 provisioning levels to investors once results are released
   - Most importantly, banks should monitor credit exposures in the worst-affected industries and geographies, proactively working with clients to reduce their risk and manage through the situation

Steps for portfolio analysis and preventative actions

Banks are taking proactive measures to minimise the likelihood that performing but “at risk” customers become distressed as a result of COVID-19. This is performed in 2 stages:

1. Initial analysis performed is to understand how the crisis will impact the banks financial resilience during the crisis.
2. Monitoring of the situation (periodically) and revisit and readjust the assumptions in the model developed as the crisis evolves.

1 Portfolio Segmentation

Review the entire bank’s portfolios and slice and dice in different loans segments (i.e. clients’ segments, sub-sectors, location of business, etc.).

2 Assumptions

Make assumptions on what sectors / clients are at potential risk, including correlation assumptions between segments and macro-economic factors.

3 Gather Historical Data

Gather data and information on the historical performance of the loans / sub-portfolios, including calculating the default rates of previous 2 years.

4 Develop A Stress Model

Develop a mini-stress test model which includes the different assumptions and scenarios defined per segments of risks.

5 Run The Model

Run the model and assess the range of potential impacts on the different loan segments, on the large exposures and other relevant clusters of risks.

6 Est. Ranges Of Impacts

Estimate the range of potential impacts on the banks (e.g. increase in NPE / losses). Evaluate the impact on the bank’s capital and financial resilience.

7 Develop Action Plans

Develop action plans to mitigate the main identified risks per client segment, sub-sector, or specific large clients, where necessary.

8 Measure Selection

Select the range of measures considered the most appropriate and effective per client segment, sub-sector, or specific large clients.

9 Comparative Analysis

Perform high-level comparative analysis of the costs to the bank for providing forbearance measures versus not providing them to identify what measures to offer and to which clients.

10 Preventive Actions

As a result of the analysis, preventive actions such as pre-emptive forbearance are developed and implemented for different segments / portfolios of loans.

What's next?

1

Refreshing Business Continuity Plans and Transitioning to Operational Resilience

2

A clear focus on capital optimisation, NPE treatment and future extensions of payment holidays

3

Doubling down on Transformation opportunities unlocked from the crisis

4

Further focus on the importance of data, streamlining to support insights, reporting and lineage

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