

strategy&

COVID-19 crisis and the European banking sector

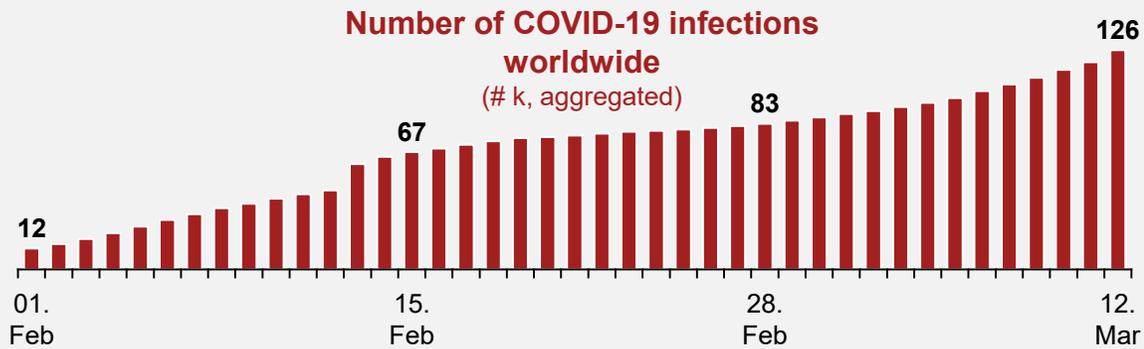
Client briefing

13 March 2020

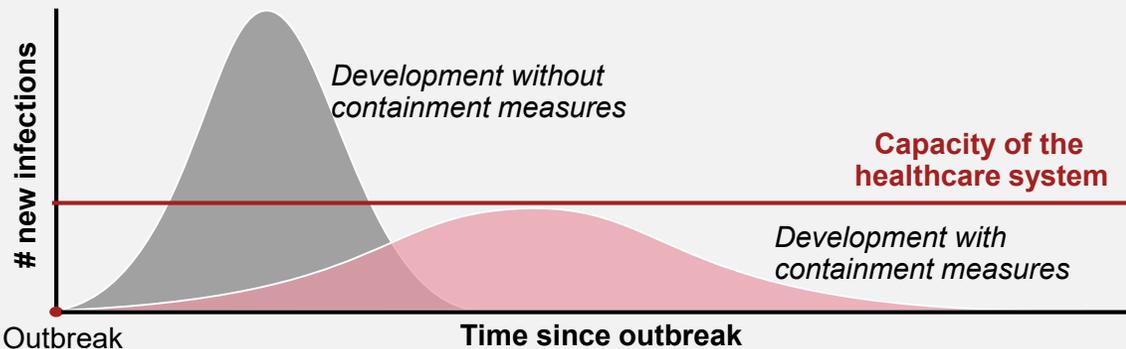
After severe market disruptions, a long-term pandemic will put the economic system under severe stress

COVID-19 pandemic: Initial situation

COVID-19 continues to spread in over 120 countries



Containment could lead to a long-term pandemic



Perspective



Global COVID-19 pandemic currently causing **significant market disruptions**



External shock hits a fragile global economy – limited headroom for responses of central banks



Containment is the best solution for society, but fatal for the economy – **the longer the pandemic persists, the deeper the recession**



Liquidity shock due to decline in sales already impacting SMEs and specific sub-industries



Disruption of supply chains and production stops could soon lead to **more widespread liquidity shortages** in many industries

European banking sector already hit by first negative effects of the emerging crisis

Impact on the European banking market

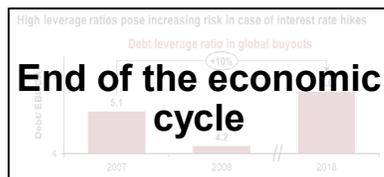
Challenges before the crisis



Pressure on RWA productivity continues to rise



Difficulties to compensate for declining net interest income



Key risk indicators at similar levels compared to 2007/08

+ *KYC requirements, digitalization, competitive pressure, ...*

COVID-19: First effects in the banking sector



Corporate customers draw their undrawn credit facilities to increase liquidity buffer



First development banks extend support measures for SMEs/ corporates



Increasing pressure to make decisions in dealing with covenant breaches and unprofitable customers

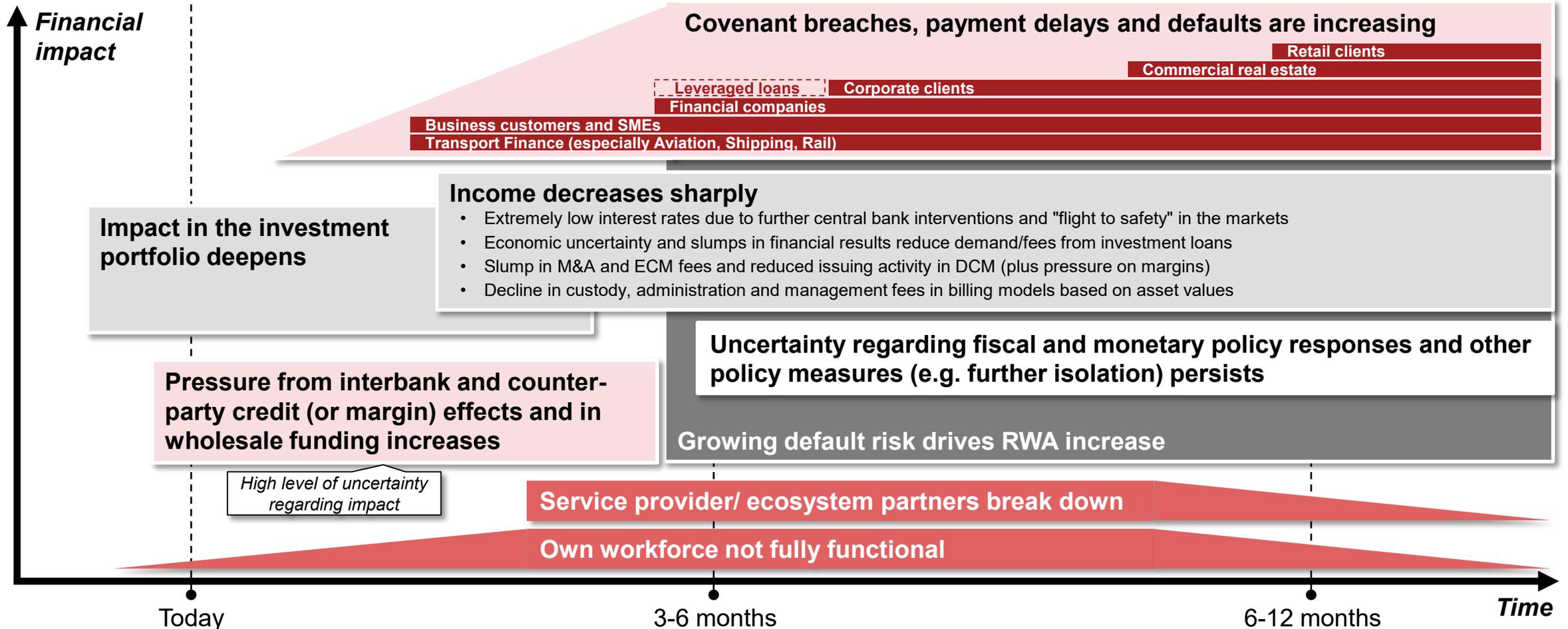


Low-rate environment here to stay further limiting financial flexibility of European banks

New business already in cool-down during 2019 despite ambitious growth plans – are banks now fully slamming on the brakes?

COVID-19 has the potential to infect banks at various levels and lead to significant losses

Risks for banks in case of a long-term pandemic



The crisis can affect all banks, but the extent of individual risks depends on the individual business models

Effects of the crisis by bank type



Bank type	Initial assessment of possible pressure points
Global players	<ul style="list-style-type: none">• Potential advantages through "true" global diversification (asset, funding)• Accelerated erosion of the income base (e.g. investment banking/ corporate finance, asset management, transaction banking)
Major European player	<ul style="list-style-type: none">• Diversified loan portfolios and funding initially stabilizing – full transparency on developments in the credit market required• Provisioning levels and origination of recent years may now cause turmoil
Regional banks	<ul style="list-style-type: none">• Significant exposures in asset-based finance, potentially short-term (Shipping, Aviation) but also long-term effects (e.g. Real Estate)• Corporate customers – delayed effects possible
Captives/ sales financiers	<ul style="list-style-type: none">• For captives, potentially strong pressure on funding ability as rating determined by manufacturing business• (Abrupt) collapse of new business possible
Specialized lenders (asset-based finance)	<ul style="list-style-type: none">• Transport or logistics exposure with potentially early effects – especially for Shipping portfolios , early P&L effects possible – decline of new business• Strong dependence on wholesale funding as a "swing factor" in stability
Savings banks and cooperative banks	<ul style="list-style-type: none">• Risk of loss in investment portfolio at banks with deposit surplus• Direct impact in the business customer/ SME segment and, at a later stage, in corporate segment (larger institutions)

This is important now: to prepare as best as possible for the economic storm of the COVID-19 crisis

Management priorities



1 Ensure operational resilience

- Activation of crisis or business continuity plans and teams
- Ensuring operational resilience (internally) and checking readiness of customers, service providers, partners
- Crisis communication with stakeholders including own workforce



2 Review interbank exposures

- Impact analysis of the COVID-19 crisis on the relevant counterparties
- Review of exposures and activities with counterparties in high-risk countries
- Review of Contingency Funding Plan and validation of measures in the current environment



3 Perform quick-check of credit portfolios

- Rapid, model-driven review of loan portfolios
- Focus on exposure of particularly affected industries/ regions/ products
- Implementation of scenario analyses
- Identification of particularly critical loans



4 Adapting market strategies

- Derive potential options (business as usual, origination stop, balanced approach)
- Analysis of options per market area/ client segment (client profitability, acceptable level of covenant breaches)
- Client communication (sales), senior mgmt. coverage



5 Mitigate individual risks in the portfolio

- Detailed analysis particularly of critical loans identified in quick-check
- Analysis of scope of options (including exit options) as well as risk-absorbing measures and changes in customer interaction (of the sales department)
- Implement portfolio transformation