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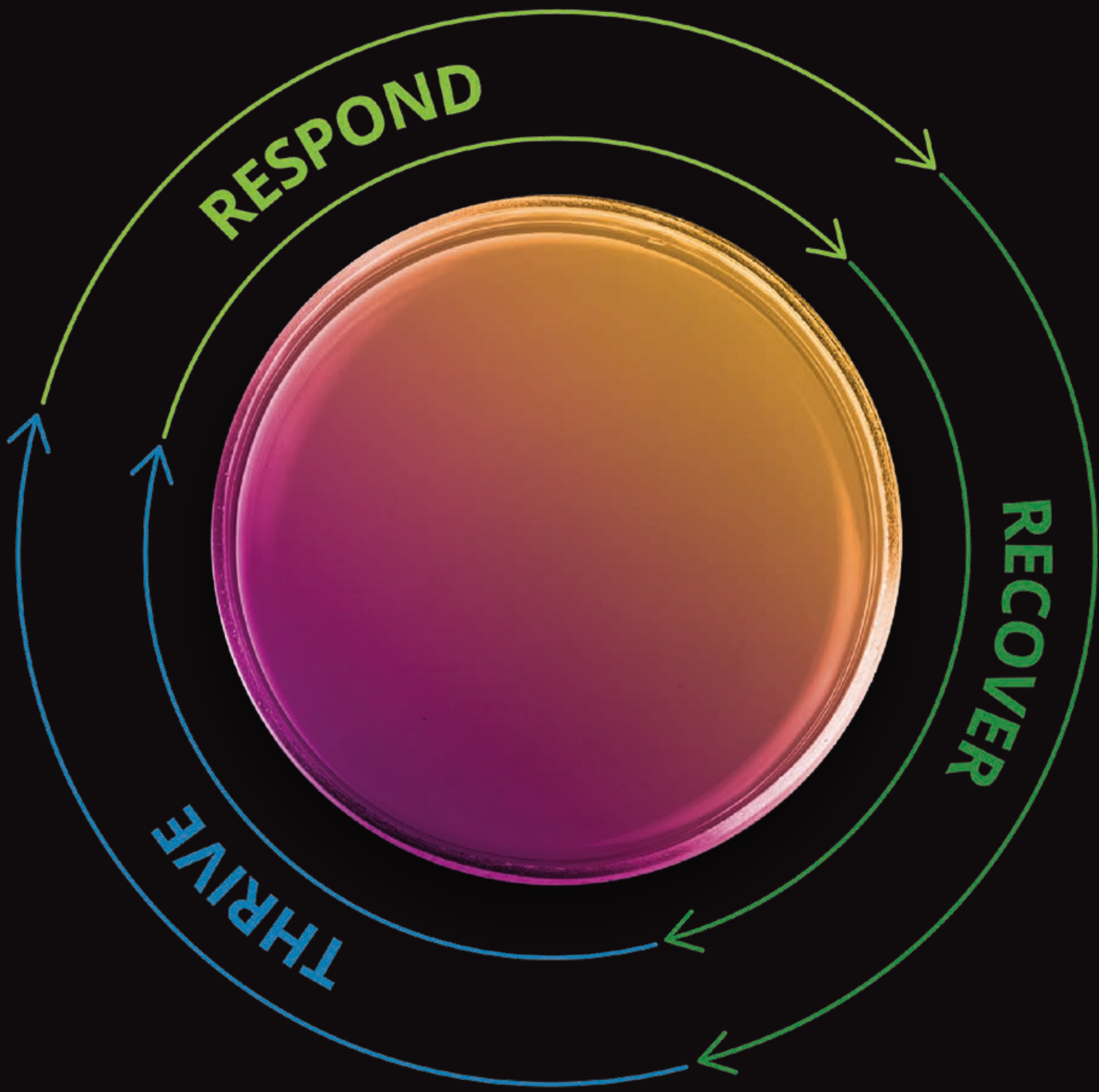

Maintaining balance sheet resilience

COVID-19 implications for the banking and capital markets sector

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Introduction

COVID-19 has taken the world by surprise and as the virus spreads it is having a far-reaching impact on businesses and markets globally.

Financial institutions need to respond, and refresh and accelerate their contingency planning, to ensure that they weather the downturn and are in a position for growth when the recovery comes.

Following on from our recent Insight piece **COVID-19 potential implications for the banking and capital markets sector**, this publication looks at some of the balance sheet-related impacts (credit, liquidity and capital) that financial institutions should be considering as the regulatory and credit environment changes rapidly.

We also present some of the key issues and announcements around Europe.

We hope you find this valuable reading.

More Deloitte resources:

Combating COVID-19 with resilience
Deloitte's global insights, to help you not only respond to this crisis, but recover and thrive.

Access to our COVID-19 Government Response Portal
A consolidation of initiatives and schemes Governments around the world have launched covering a wide range of tax & fiscal, social, and regulatory measures to mitigate the impact of the COVID-19 crisis.

World Health Organisation

COVID-19 challenges

General market impact

The COVID-19 outbreak is a global human tragedy affecting millions of lives across continents. It is also having a severe impact on the global economy. Governments, regulators and financial institutions are navigating an unfolding situation with no clear expectation on how long the regime of restrictions will last.

GDP forecasts for major economies pre- and post- the COVID-19 crisis

Country	Year on Year 12 month Real GDP Growth (2020)				Year on Year Real GDP Growth (2020)			
	Q1	Q2	Q3	Q4	Current 2020 forecast	Pre-COVID 2020 forecast	Difference	2021 Forecast
UK	-0.1%	-2.5%	-2.5%	-0.7%	-1.4%	1.0%	-2.4%	3.7%
Ireland	1.9%	-2.0%	-2.8%	-3.0%	-1.5%	2.4%	-3.9%	5.0%
Spain	0.3%	-3.6%	-2.5%	-1.6%	-1.9%	1.7%	-3.6%	3.9%
Germany	-0.5%	-5.6%	-2.8%	0.3%	-2.1%	0.7%	-2.8%	4.3%
Italy	-0.1%	-0.1%	0.0%	0.4%	0.0%	0.3%	-0.3%	0.5%
Greece	0.5%	-7.9%	-5.8%	-2.1%	-3.8%	2.3%	-6.1%	6.0%
France	-1.6%	-6.6%	-3.1%	-1.0%	-3.1%	1.2%	-4.3%	4.4%
Portugal	1.6%	-2.4%	-1.1%	-0.9%	-0.7%	1.3%	-2.0%	2.4%
Sweden	-0.3%	-3.8%	-2.1%	-1.2%	-1.9%	1.2%	-3.1%	3.5%
Norway	0.2%	-3.8%	-1.1%	-1.4%	-1.5%	2.0%	-3.5%	3.9%
Denmark	1.1%	-3.5%	-1.1%	0.0%	-0.9%	1.3%	-2.2%	3.1%
Finland	-1.3%	-5.1%	-2.9%	-1.5%	-2.7%	1.1%	-3.8%	2.7%
Austria	0.2%	-2.2%	-1.5%	-0.3%	-0.9%	1.0%	-1.9%	3.2%
Netherlands	0.9%	-2.9%	-1.7%	-0.6%	-1.1%	1.3%	-2.4%	2.8%
Belgium	0.0%	-4.3%	-2.8%	-1.4%	-2.1%	1.2%	-3.3%	4.0%

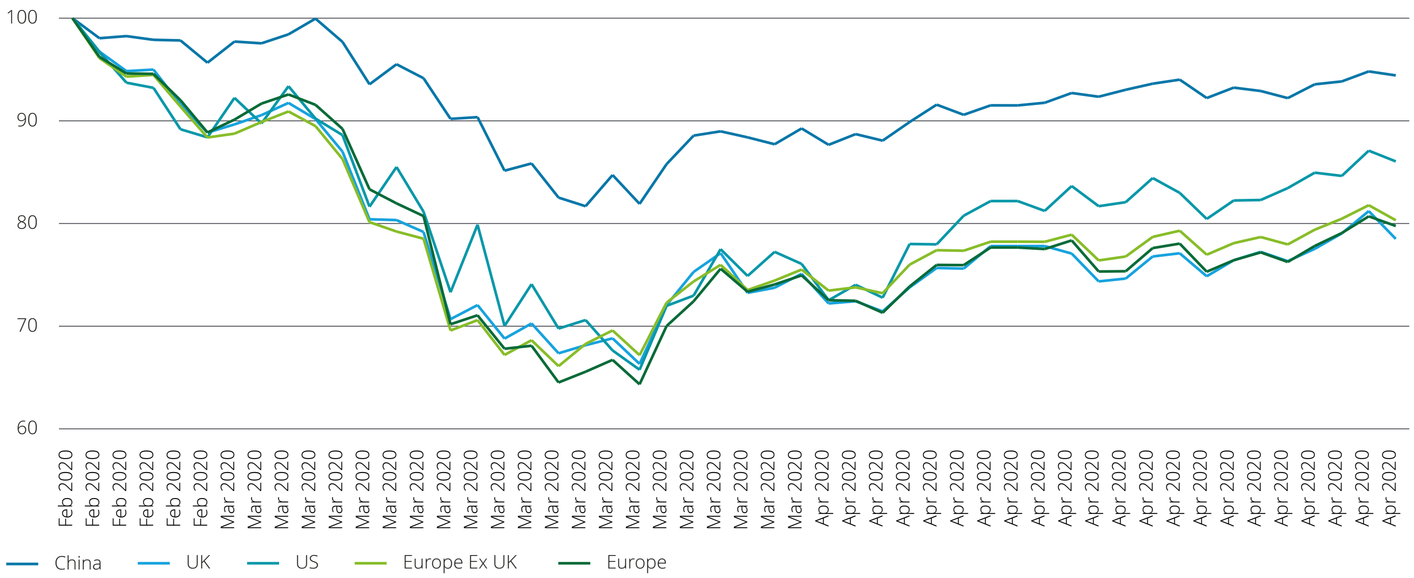
Source: Oxford Economics

- The impact of COVID-19 on individuals, communities and organizations is evolving rapidly. It has caused substantial disruption and has had an economic impact through a hit to sentiment, damage to the supply side of the economy, and loss of demand.
- High unemployment: according to the FT, the number of people no longer in their regular employment rose to around 10% of the workforce in a single two-week period – an increase as large as that which took place during the financial crisis between 2007 and 2009.

In addition to the effects on the supply and demand sides of the economy, COVID-19 has devastated financial markets. Equity indices and bond yields have plummeted.

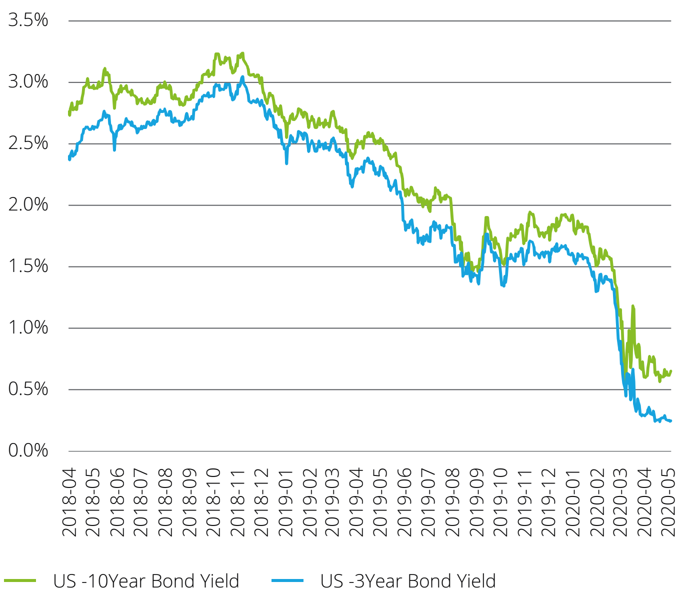
COVID-19: hit to sentiment, damage to the supply-side of the economy and loss of demand.

S&P Country BMI Indices

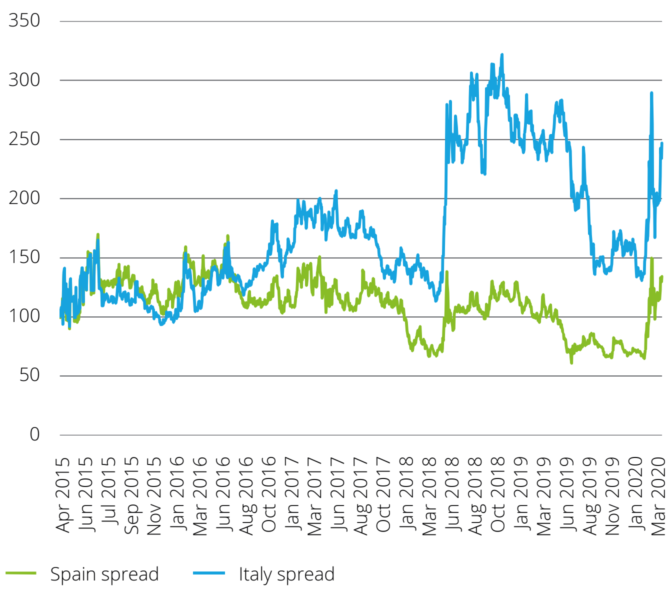


Source: CapitalQ

US Government bond yield



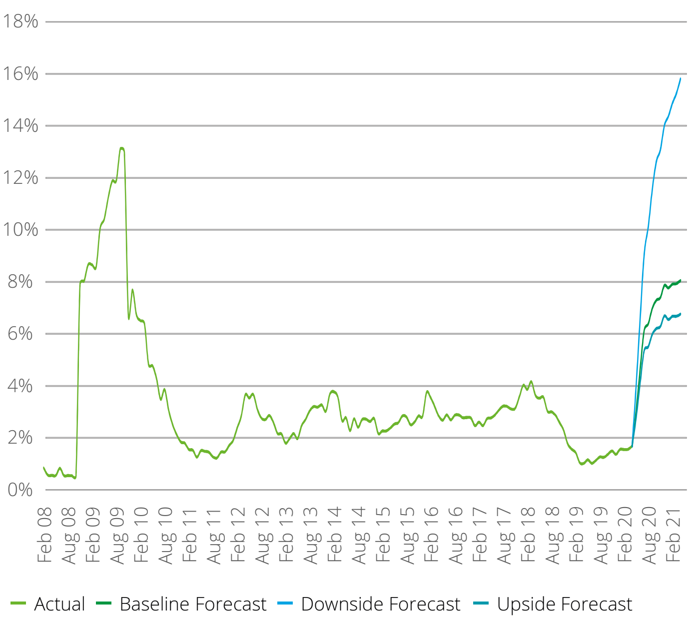
Spain and Italy 10-yr spread over Bunds



Source: CapitalQ

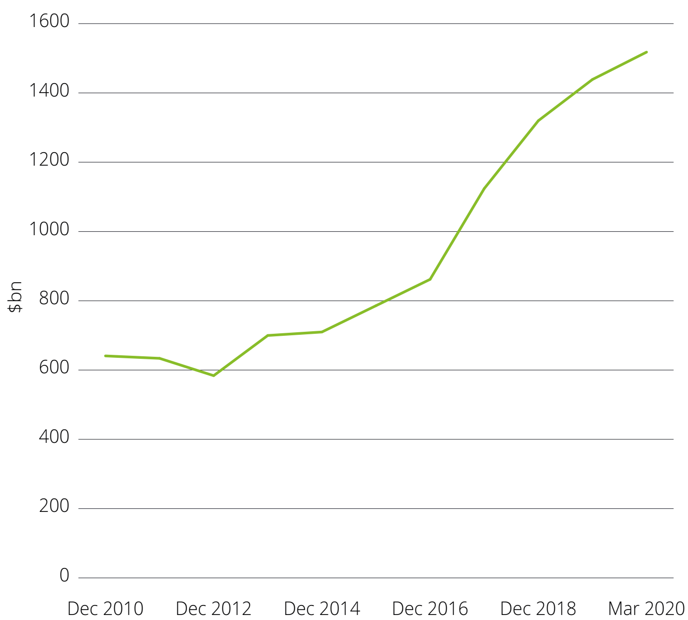
- Governments, regulators and financial institutions are navigating an unfolding situation with no clear view of how long the regime of restrictions will last.
- The economic challenge could be more severe than during the global financial crisis.
- Central banks have been taking unprecedented action in order to aid the banking and capital markets, for example by lowering interest rates, and increasing bond purchase programmes and funding programmes. Supervisory bodies have taken steps to ease capital requirements temporarily.
- Institutions and individuals are experiencing liquidity and credit stress, including limited access to credit. This might increase the probability of default.
- During this crisis, banks are seen as part of the solution by channelling the stimulus money to the real economy – companies and consumers. Banks are in a better position now than they were at the start of the 2008 financial crisis. The strong liquidity positions of banks have permitted corporates to draw on their funding lines. Furthermore, lower-for-longer rates coupled with government-enforced moratoriums in many countries will have a negative impact on the earnings of banks. This will be exacerbated by increased corporate and consumer defaults if the lockdown extends for a long period of time. Banks have halted dividend pay-outs to investors in an effort to shore up capital. Banks also face reputational risk in terms of how the state aid measures are rolled out. In addition to this, banks are facing uncharted operational challenges with RMs and call centres operating at full capacity and with the complications of social distancing precautions.
- Distressed PE investors have significant 'dry powder' (highly liquid marketable securities and cash reserves) and can also be part of the solution by providing liquidity to banks and NBFIs.

European speculative-grade default rates



Source: Moody's

Private equity dry powder



Source: CapitalQ

We do not know the long-term implications of COVID-19 for financial markets. When normality returns, firms will probably have learned a few lessons, such as how best to retain operational resilience when confronted with future pandemics, and possibly how to design new operating models such as alternative working arrangements. COVID-19 may further accelerate migration to digital channels and connectivity.

How banks can navigate uncertainty

In these times of unprecedented disruption to business, there will be considerable stress on the balance sheets of banks requiring immediate action to avoid long-term negative consequences.

Strategic asset quality reviews

- Banks will experience deteriorating loan books and higher IFRS 9 adjustments, and credit delinquency will surge across most sectors, damaging financial results
- Need for updated internal risk assessment and mitigation models
- Opportunities arising from liquidity and working capital shortfalls of customers

Solutions

- Loan portfolio diagnostics
- Early warning and risk mitigation plan preparation
- Scenario and cash flow stress modelling
- Impairment assessment

Optimising the balance sheet

- Despite regulatory forbearance, capital ratios will deteriorate due to credit quality reductions, RWA increases and P&L losses
- Relative under-performers to be penalised by the market and agencies
- Need to identify mitigating actions

Solutions

- Identification of short- to medium-term capital-accretive actions
- Re-assessment of capital targets / performance benchmarking
- Proactive outreach strategy
- Strategic capital allocation

Regulatory implementation

- Operational complexity of effectively implementing and manoeuvring a growing set of new monetary, fiscal and regulatory measures announced to tackle growing business interruption
- Application of regulatory framework as strategic management tool

Solutions

- Regulatory review, focused on how to deliver existing regulatory commitments
- Implementing and monitoring temporary measures

De-risk strategy

- Surge in non-core and non-productive assets result in a larger capital burden
- IFRS 9, higher impairments and rising loan delinquency will penalise operating results
- Need to develop/execute de-risking programme to reinforce balance sheet and capital base

Solutions

- Portfolio optimisation and Pricing
- Strategic deleveraging options analysis
- Credit risk management
- Capital/RWA optimisation
- Strategy implementation

Inorganic growth

- Need for growth through consolidation, as further economic contraction will keep downward pressure on interest rates and result in more buying opportunities and a greater emphasis on profitability through scale

Solutions

- Portfolio optimisation & Pricing
- Strategic deleveraging options analysis
- Credit risk management
- Capital / RWA optimisation
- Strategy implementation

Implications for banking and capital markets

Credit: asset quality deterioration

Current developments

- Borrowers are facing significant losses due to the current lockdowns in most jurisdictions across the world.
- Increases in Credit Default Swap spreads indicate that the market is pricing in higher default risk across corporate, financial services and sovereigns.

Impact

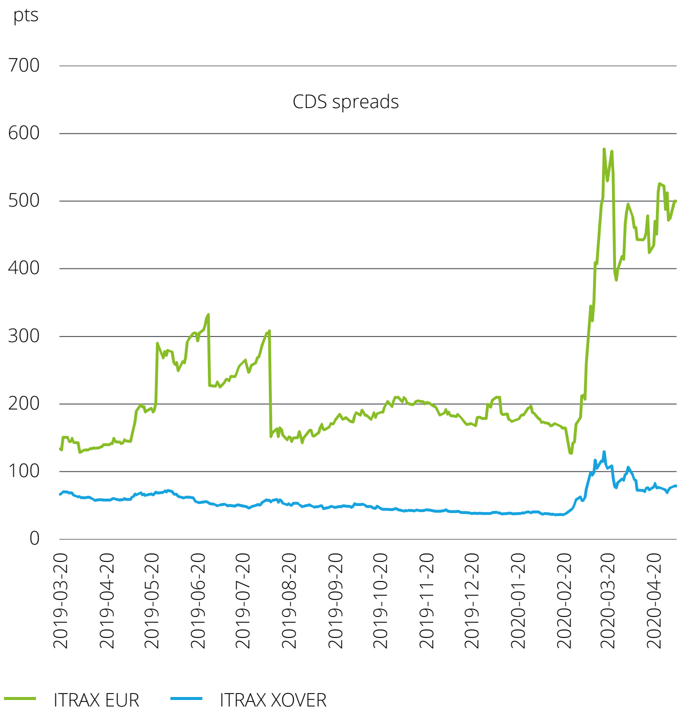
- Credit ratings deteriorate and default rates increase across corporate debt, structured debt and specialist lending.
- Customers, both retail and institutional, may resort to minimal or delayed payments.
- Securitisation backed by loans will probably have rating downgrades, with the main impact on mezz and junior notes, and mostly specialist lenders that rely on wholesale/ capital markets for funding.

Mitigation

- Focused credit risk management.
- Identify which sectors/regions/clients are most at risk.
- Reach out to clients with communications and information requests to provide temporary help as appropriate, before asset quality deteriorates significantly.
- Re-examine loan loss provisions under different economic scenarios.
- Communicate with rating agencies, outlining pro-active credit risk management procedures in place.
- Undertake internal impact assessments on potential ratings trajectory.
- Specialist lenders: negotiate debt terms; alternative sources of capital.
- Opportunities for PE funds to provide funding.

Government bond CDS spreads

Country	S&P	5Y CDS	1m VAR	6m VAR	Implied PD
US	AA+	15.8	-0.60%	6.80%	0.26%
UK	AA	20.74	2.90%	-26.20%	0.35%
Germany	AAA	22.5	110.30%	120.60%	0.38%
France	AA	39.2	120.20%	96.00%	0.65%
Japan	A+	41.2	81.50%	75.30%	0.69%
China	A+	49.24	-7.70%	2.10%	0.82%
Portugal	BBB	100.5	113.40%	144.50%	1.68%
Spain	A	102.6	117.80%	156.50%	1.71%
Italy	BBB	176.5	17.20%	33.90%	2.94%
Russia	BBB-	190.62	121.50%	121.60%	3.18%
India	BBB-	221.68	240.90%	202.30%	3.69%
Brazil	BB-	269.1	100.40%	97.60%	4.49%



Liquidity issues and capital management

Current developments

- Losses due to lower base rates and credit quality deterioration.
- Non-payment or reduced repayments from borrowers as part of government measures – significant impact on cash flows.
- Impairment for credit losses will increase due to greater default risks and lower expected recovery levels.
- Risk-weighted assets (RWA) affected by higher charges from increased volatility and higher counterparty risks. Drawn commitments and credit migration will also lead to higher RWA.
- The ECB, Fed Reserve, BoJ and PBoC have taken various actions to ensure market liquidity, including corporate bond purchases.
- Stress testing will be applied to initial balance sheet scenarios, with limit/threshold breaches expected to drive increased scrutiny.

Impact

- Increased provisions leading to capital erosion. Government measures include interest moratorium, mortgage holiday.
- According to analysis by Autonomous, providing an interest guarantee for all outstanding lending for 12 months would only on average add 2% to government debt-to-GDP ratios. The impact of drawing down unused credit facilities (but excluding any credit migration) would reduce CET1 ratios by about 1%.
- Impact on NBFIs: limited access to capital markets; warehouse lines due for maturity. Some may face bankruptcy.
- Securitised bonds are less likely to be called as market conditions make price discovery difficult. Higher cost for issuer due to step-up in coupon. Investor time horizon may be extended.
- Without government support, increasing numbers of specialist lenders will be faced with the choice between disappointing investors or putting their own businesses at risk.
- Specialist lenders will hope for schemes to provide investment capacity to the wholesale funding markets used by small authorised deposit-taking institutions (ADIs) and non-ADI lenders.
- Customers, both retail and institutional, may resort to minimal or delayed payments on their loan balances.
- Securitisation backed by loans will probably see rating downgrades.

Mitigation

- Ensure collateral is eligible for central bank funding.
- Closely monitor items such as daily liquidity stress testing reports, limits/thresholds and liquidity coverage ratio (LCR) results. Monitor market activity against liquidity stress indicators.
- Consider impact on secured funding/asset sales/market access.
- Prioritise assessment of individual large exposures, to revisit assumptions and financial impacts (e.g. RWA and impairment).
- Assess preliminary capital impact and identify mitigating actions, e.g. access to private equity until capital markets normalise.
- Carry out additional stress tests with different underlying scenarios specific to COVID-19.

Regulatory and monetary response

Europe's liquidity and supervisory capital relief

During March the ECB approved a fairly comprehensive package of measures in response to the coronavirus crisis. These include **expanded asset purchases, lower bank funding costs, and supervisory capital relief for banks**. **The ECB has not lowered headline interest rates,** but in practice it has substantially reduced the cost of funding for banks.

Between 2014-2018, the ECB's various asset purchase programmes yielded net purchases of securities in the region of €185bn. This figure pales in comparison with the ECB's collective refinancing operations to address the COVID-19 crisis, which will provide an estimated €3 trillion in liquidity.

March 2020 timeline

- **March 12** – EBA 2021 stress tests cancelled
- **March 16** – ECB announces liquidity measures
- **March 19** – ECB launches PEPP
- **March 20** – ECB announced supervisory flexibility on NPLs

Liquidity measures

TLTRO and LTRO changes

- The ECB **lowered the interest rate on targeted long-term refinancing operations (TLTRO)** by 0.25% until June 2021.
- The ECB will **offer a series of weekly long-term refinancing operations (LTRO)** maturing on 24 June, when the next quarterly TLTRO takes place. This series of weekly LTROs will be **at a deposit rate** 0.50% lower than the main refinancing operations.

The ECB aims to provide additional liquidity and effectively lower bank funding costs by 0.50% until the last week of June, and by 0.25% for a further year until June 2021.

Bond purchases

Pandemic Emergency Purchase Programme (PEPP)

- The ECB expanded its existing asset purchase programme by €120bn until the end of the year. (This increases asset purchases for the remainder of the year from €180bn to €300bn).
- The ECB announced a new Pandemic Emergency Purchase Programme (PEPP) worth €750bn until the end of the year.
- The ECB has relaxed the conditions for its asset purchases (e.g. applying self-imposed limits flexibly to ensure the smooth transmission of monetary policy; Greek government bonds and commercial paper become eligible; and requirement for government bonds to be investment-grade has been waived.

This brings the total amount of bonds to be purchased for the rest of the year to above €1tn, which is just under 9% of the Eurozone's 2019 GDP.

Bank supervisor

Bank supervisor support

- **Basel III** roll-out has been postponed by a year.
- **Temporary release of capital buffers** by the Single Supervisory Mechanism (SSM) including the so-called capital conservation buffer and the counter-cyclical buffer.
- **Temporary release of Pillar 2 guidance,** waiving any discretionary capital requirements it may have imposed on individual banks.
- **Temporary release on regulatory liquidity coverage ratio,** allowing banks to operate temporarily below their regulatory liquidity coverage ratio.

The SSM measures aim to mitigate some of the damage caused by government-mandated containment actions.

The ECB has provided substantive liquidity and supervisory capital relief to banks. However, **banks may still conclude that some or most businesses will be unable to survive the coronavirus lockdown**. Therefore loan deferrals, let alone new bridging loans, may remain too risky for banks even taking into account regulatory capital relief. **This means governments will have to step in.**

Bank of England monetary measures

The Bank of England (BOE) has announced a number of monetary and macro prudential policy measures designed to help U.K. financial market participants deal with the effects of the coronavirus pandemic.

The Bank of England has addressed the economic challenge by reducing borrowing costs and increasing its bond-buying programme to £645 billion (up by £200 billion) in addition to providing direct financing to business through a commercial paper purchasing scheme.

March 2020 timeline

- **March 11** – 1st interest rate cut: capital requirement and Term Funding Scheme changes
- **March 17** – CCFF
- **March 19** – 2nd Interest rate cut
- **March 20** – Supervisory and prudential policy updates

Liquidity measures

TLTRO and LTRO changes

- **Bank Rate:** Following two emergency rate cuts, the Bank Rate has been reduced by 65 basis points to 0.1%, to improve business and household cash flows and access to finance.
- **Release of countercyclical buffer (CCyB):** Reduction in the CCyB rate by 200 basis points to 0% of banks' exposures to UK borrowers, in order to support bank lending to businesses and reduce credit disruption.
- **Term Funding Scheme:** The introduction of a Term Funding Scheme for small and medium-sized enterprises (SMEs) will see the BOE provide funding, for a term of four years, of at least 5% of market participants' real economy lending stock at rates equal to, or around, the Bank Rate. An additional incentive has also been introduced for lending to SMEs, which will see the BOE provide £5 of funding for every £1 of positive net-lending to SMEs.
- **Bond purchases:** Maintenance of the BOE's stock of sterling non-financial investment grade corporate bond purchases (valued at £10 billion) and U.K. government bond purchases (valued at £435 billion), each financed by the issuance of central bank reserves.
- **HMT and BOE create the 'COVID Corporate Finance Facility (CCFF)':** The CCFF provides funding to businesses by purchasing, on terms comparable to those prevailing in the markets in the period before the COVID-19 crisis, commercial paper (CP) issued by UK-incorporated companies that make a "material contribution to the UK economy". Will operate for at least 12 months.

The CCFF is a separate entity funded by the central bank but with full indemnity from HMT for any losses.

The BOE measures aims to provide additional liquidity & lower bank-funding costs through a series of direct and indirect bond purchase programs as well as unprecedented low interest rates.

Bank supervisor

Bank supervisor support

- **Non-critical obligations:** data requests, site visits and deadlines for firms and FMIs that are not ' critical' will be postponed.
- **Senior Management Function applications:** the processing and review of applications for Senior Management Functions will be reviewed by the PRA to reduce regulatory burdens.
- **The BOE, PRA, FCA and ESMA announced the suspension of deadlines for certain consultations.**

The SSM measures aim to mitigate some of the damage caused by government-mandated containment actions.

The BOE measures go beyond those taken by the ECB, as they **provide not only substantive liquidity and supervisory capital relief to banks, but also an incentive for banks to lend** through its enhanced term funding scheme. It also offers **an additional borrowing option** to the private sector by providing direct financing through its CCFF programme.

IFRS 9: Financial Instruments

Over the course of March, prudential regulators (e.g. PRA, ECB and EBA) and the IASB released statements in relation to IFRS 9. These statements included a continued commitment to IFRS 9 principles but provided guidance on (i) the allocation of exposures to stage 2 and the identification of defaults and (ii) the use of reliable forward-looking information.

The PRA has announced several measures aimed at ensuring that banks are able to continue to lend to households and businesses, support the real economy, and provide robust and consistent market disclosures.

March 2020 timeline

- **March 20** – PRA and BoE joint statement on IFRS 9 and COVID-19
- **March 26** – Letter to CEOs on PRA COVID-19 measures
- **April 1** – ECB letter on IFRS 9 in the context of COVID-19

SICR and default

Identifying defaults and exposures triggering a Significant Increase in Credit Risk (SICR)

- Firms need to **reassess default and stage 2 triggers**. The PRA has stated that all other things being equal, forbearance measures and covenant breaches as a result of the pandemic **should not automatically result in increasing the asset to either stage 2 or 3**. Firms will need to identify where an exposure has been classified as either stage 2 or 3 or due **solely to the effects of COVID-19**.
- In the case of firms with large portfolios, a **systematic approach** should be developed in order to avoid requiring reviews to be carried out on an exposure by exposure basis. Such firms will need to **identify segments that are high risk and in need of a review**. The use of sophisticated solutions such as machine learning will only be viable for firms that already have the necessary tools, given the current environment and the time that would be required for delivery.
- The regulatory guidance is likely to result in an **increased use of post-model adjustments (PMAs) and overrides**. PMA or overrides will need to be **quantified and monitored** as the pandemic plays out. This in turn will require appropriate **PMA performance and risk management frameworks** to be in place, providing sufficient oversight of the calculation processes, including those used to capture expert judgment.

Regulatory guidelines are structured to reduce the systemic risk of a pro-cyclical shock to banks' balance sheets due to significant numbers of exposures being pushed into default as a result of removing the direct effects of the pandemic on the classification of exposures.

Expected Credit Loss (ECL)

Modelling expected credit losses

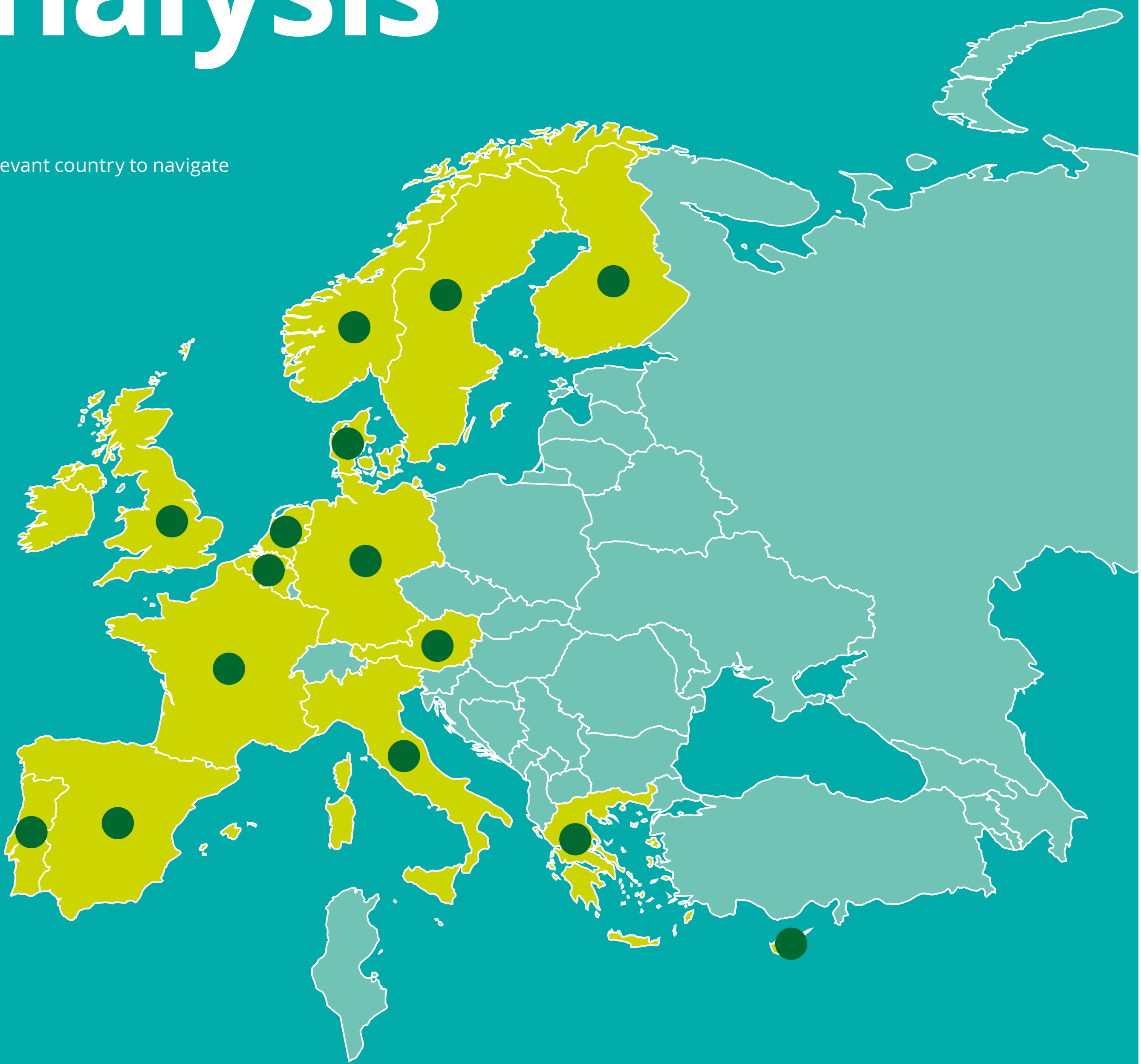
- The PRA has highlighted that **forward-looking information** should take into account the **unprecedented support measures** that have been announced by the government. They highlight the difficulty in sourcing reliable forward-looking information; however it is advised that to the extent possible, this is what should be used. It is also expected that this information will reflect the **anticipated short-term nature of the shock**.
- One approach might be to put greater emphasis on measures of **market implied default risk** such as expected default frequency (EDF), to identify firms and industries that are at greater risk of distress. EDFs capture all relevant information available at a specific point in time, theoretically incorporating the **negative impact on business** cash flows together with the **positive impacts of central bank and government stimulus**.
- Additionally, firms will face the **challenge of forecasting losses** using reliable economic forecasts. **A Monte Carlo simulation-based approach** can be used to create a loss distribution rather than using a discrete scenario approach.
- An additional challenge for firms will be to factor into simulation based models the expected short-term impact of this pandemic.

Firms will need to consider how their models are recalibrated to calculate ECL in the aftermath of the pandemic.

Regulators including the PRA and ECB, are pursuing a range of regulatory and supervisory measures to **alleviate the financial stability impact** of the COVID-19 and **maintain the safety and soundness of authorised firms**.

Country analysis

Click on relevant country to navigate



United Kingdom

The UK's focus during the COVID-19 outbreak has been on the **preservation of jobs** and supporting the **self-employed**. Measures have also been implemented to help businesses manage their immediate **cash flow problems**.

Economic context

- COVID-19 has spread rapidly across the United Kingdom with the infection curve mirroring those of Italy and Spain with an estimated two week time lag and the number of deaths now the highest in Europe. In response, the government has implemented a range of measures including travel restrictions, social distancing, closures of entertainment, hospitality, non-essential shops and indoor premises, and increased testing.
- Historical experience from short recessions and previous pandemics suggests that most activity will be postponed rather than destroyed entirely, but the speed of the rebound will depend on the duration of the pandemic and the speed at which functionality returns. Natural disasters do not typically lead to economic depression but the impact of the pandemic, with over a third of the global population facing a form of lockdown measures, means that the scale of the rebound in the economy is unknown. The UK government has taken steps to preserve employment to help ensure that the supply side of the economy is intact when demand and spending recover.

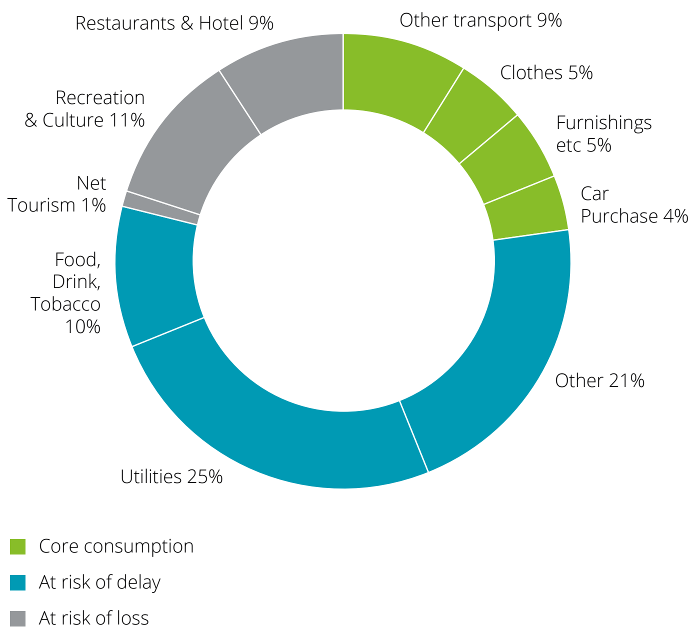
Historical experience from short recessions suggests that most economic activity will be postponed rather than destroyed.

- The Bank of England has responded to the pandemic by lowering the Base Rate to an all-time low of 0.1%, as well as providing £200bn of Quantitative Easing.
- Spending on restaurants and hotels, recreation and culture and net tourism is at risk of permanent loss. Car purchases, clothes and furnishings are all likely to be expenditures postponed by UK consumers.

Non-bank lenders

- At present there has been no offer of state support for non-bank finance lenders that provide home loans to customers who cannot borrow from high street banks and building societies.
- These specialist lenders are also active in providing SME and consumer finance loans. They rely for funding on wholesale and capital markets, which are now effectively closed. A mechanism could be provided for these specialist lenders to access funding, by seeking credit from the banks that are eligible for the BOE's Term Funding Scheme for SMEs. However, there are likely going to be practical difficulties with obtaining the funding and also in the timing of when the funds could be made available.
- In the absence of specialist lenders, borrowers may find themselves unable to switch to new deals at the end of their fixed terms. As a result they may be put on the more expensive standard variable tariffs.

Structure of consumer spending



Source: Oxford Economics

Despite two interest cuts by the BOE, many banks are withdrawing products or increasing margins.

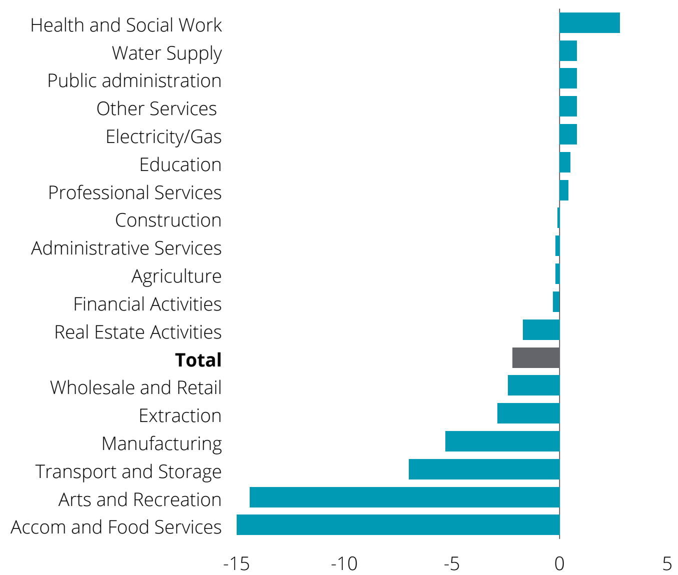
Banks

- This is not the 2008 financial crisis. UK regulators have acted rapidly to provide easier capital and credit conditions for banks, and the banks are looking to be seen this time as part of the solution, not the problem.
- The current crisis has caused a run on corporate lending facilities. The undrawn lending commitments of European banks are about 37% of drawn loans. The banks already hold some capital against their undrawn commitments. (It is converted in a credit exposure using a credit conversion factor, CCF, and then risk weighted.)

This is not the 2008 financial crisis. This time the banks are seen as part of the solution, not the problem.

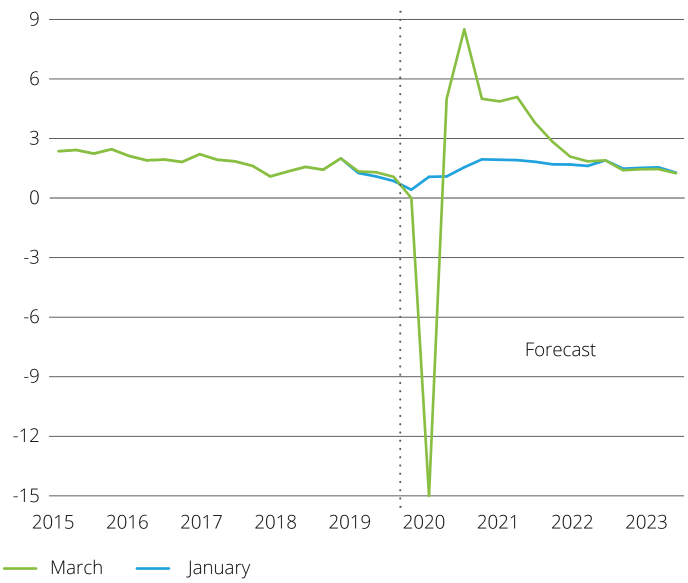
- In response to PRA pressure, the major UK banks have agreed to cancel their remaining dividend payments for 2019 and 2020, in order to retain more firepower.
- Many of the banks instantly withdrew their mortgage products or increasing margins, despite BoE interest rate cuts. New mortgage lending is heavily restricted to 60% LTV, as new valuations cannot be undertaken. In response to physical appraisal restrictions, some lenders have begun to relax LTS limits on AVMs.
- Mortgage lenders have offered an automatic three-month payment holiday for all current performing borrowers affected by COVID-19. Interest will accrue during the holiday period, but it allows lenders to offer forbearance in a simple way to customers. The holiday period will also not affect a borrower's credit ratings.
- The FCA has also allowed three-month payment holidays on consumer loans, including motor finance deals, high cost credit and credit cards. Zero interest will be charged on arranged overdrafts up to £500.
- Ratings agencies have yet to provide formal guidance on the implications of the payment holiday on UK RMBS transactions, or on the broader economic fallout. However, their major focus will be on liquidity and credit risk.
- Credit risk and liquidity risk depend heavily on the economic consequences of COVID-19. In terms of liquidity risk, transaction structures include provisions such as liquidity reserves, which will mitigate the risk. Such provisions primarily support senior tranches, and the ratings of mezzanine and subordinated tranches are likely to be downgraded.

UK GVA % growth 2020



Source: Oxford Economics

GDP growth forecasts



Source: Oxford Economics

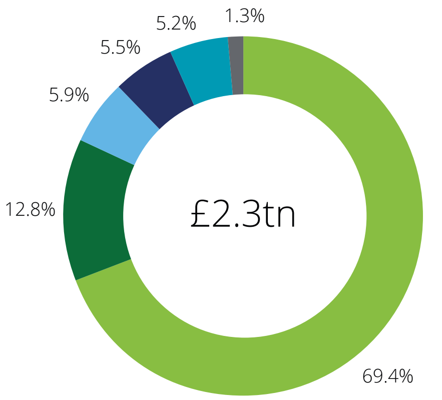
Impacted sectors

- The economic impact of COVID-19 has affected the entire UK: Oxford Economics estimates that cities such as Cambridge and Bristol may be most resilient given their large professional services and digital industries. Cities with little exposure to these sectors, such as Southampton and York, could be some of the hardest hit.
- Predictably, the greatest levels of stress are among riskier non-investment grade businesses, which have seen a sharp rise in default risk.
- Stocks in sectors that are particularly exposed demand shock, such as airlines, energy and hospitality and leisure, have seen the biggest declines. 40% of UK firms are reducing or cancelling dividends.
- Technology, healthcare and utilities stocks have also been sold off, but to a lesser extent than the overall market.
- The insurance industry is expected to come under strain if it is forced to pay out for COVID-19 claims that insurers never intended to cover. Insurers have said that infectious diseases are excluded from most business interruption policies, prompting anger from customers facing huge losses.
- The real estate market has come under a government-mandated halt, with banks expressing concern about the impact on valuations and on granting credit when the economy is in a downturn. The impact on house prices is difficult to predict until the economic effects of the virus become clearer.
- Whilst many developments will severely affect UK GDP negatively, there could be several offsets. Industries where home working is feasible have made suitable arrangements, whilst in other sectors, employers are asking those still at work to do extra hours or are using recently-retired employees to substitute for absent workers. There will be some changes in demand patterns, with increased spending on home delivery and home services. The support provided by fiscal and monetary policy measures will ease the impact on GDP.

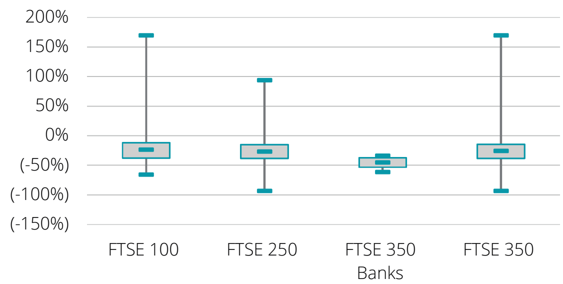
Impacted sectors

- All sectors across the UK will be affected, with some likely to rebound more easily than others.
- Tourism, hospitality and aviation are facing sharp falls in demand, with little chance of catching up later.
- The sectors least affected directly are agriculture and business services, but these too rely on an available and healthy workforce – so no sector is completely safe.

GDP
Breakdown by sector



Equity markets
Changes in market cap

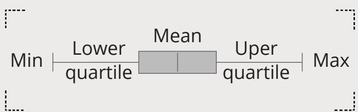


Heatmap
Expected impact

Desc	Services	Manufac-turing	Construc-tion	Transport
Short term	M	M	M	H
Upside	N	N	N	M
Downside	H	M	H	H

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

The UK government has introduced unprecedented financial measures in response to COVID-19:

- **Coronavirus Job Retention Scheme** to help pay wages of employees who are not working but kept on the payroll rather than laid off. The Scheme will pay 80% of salaries up to £2,500 per month. There is no limit on the amount of funding available for the Scheme.
- **Self-employment Income Support Scheme** to enable self-employed individuals to apply for a grant worth 80% of their average monthly profits over the past three years, up to £2,500 per month. The money will be paid in a single lump sum, but payments will not begin until the start of June at the earliest.
- **Coronavirus Business Interruption Loan Scheme (CBILS)** of up to £5m to help firms manage cash flows. Terms from three months to 10 years for term loans and asset finance, and up to three years for revolving facilities and invoice finance. Interest-free for the first 12 months.
- **Deferral of next quarter of VAT payments** to the end of June, and until the end of the year to repay the bills. This benefit has a value of 1.5% of GDP (£30bn).
- **Companies House filing period extension of three months** for all accounts, to help companies avoid penalties as they deal with the impact of COVID-19.
- **Statutory Sick Pay (SSP) relief package** to cover up to two weeks' SSP per eligible employee who has been off work because of COVID-19.
- **100% business rates holiday** for all retail, hospitality and leisure businesses in England, for 12 months.
- **Up to £25,000 cash grants** to retail, hospitality and leisure businesses operating from smaller premises with a rateable value over £15,000 and below £51,000.
- **3-month payment holiday offered by mortgage lenders** for all current performing borrowers for owner-occupied and buy-to-let borrowers.
- **3-month ban on evictions of commercial tenants** who miss rent payments.
- **Temporary suspension of wrongful trading provisions** in insolvency law, to enable otherwise viable companies to continue trading during the crisis without penalising company directors.
- **Future fund offering convertible loans up to £5m** with UK government matching private sector funding for innovative companies. Loans targeted at companies that rely on equity funding and will automatically convert to equity at next funding round (with a minimum 20% discount).

The greatest levels of stress are among riskier (typically small) non-investment grade businesses.

Ireland

The Economic and Social Research Institute of Ireland (ESRI) estimates that **75% of households will avoid spending on leisure, transport, furnishings, clothes, cars and tourism**.

Economic context

- COVID-19 poses the single biggest challenge to the Irish economy since the 2009 financial crisis. The response of the authorities to the spread of the virus, while necessary from a general health perspective, will result in a sharp contraction in global economic activity and millions of jobs being lost globally in the coming weeks and months. The limitations on international travel and the effective sealing-off of entire countries will have profound implications for cross-country trade and commerce.
- Assuming a 12-week duration of current restrictions, the ESRI estimates that the Irish economy would go into recession this year with output contracting by 7.1%. This constitutes a significant reversal of the pre-COVID-19 economic trends.
- The unemployment rate is expected to increase from 5.4% in March to 18% in Q2 2020. To provide some perspective, at the height of the financial crisis unemployment in Ireland went from 5.3% in February 2008 to almost 14% in September 2009. This dramatic rise in unemployment and cuts to income for households remaining in employment will no doubt reduce sharply expenditure in the economy.
- Consequently, there will be significant pressure on the Irish public finances. The combination of the extra expenditure on health and social welfare allied to the sharp decline in certain taxation revenues means a deficit of nearly 4.5% is now likely in 2020, and it could be even higher. Greater expenditure may still be needed in order to meet the threat to public health.
- The path to recovery for the Irish economy is complicated by its very open nature. While the domestic authorities may be successful in limiting the spread of the virus, the performance and recovery of the Irish economy will also depend on the effectiveness with which other countries deal with COVID-19.

Impacted sectors

- The Economic and Social Research Institute of Ireland estimates that 75% of households will avoid spending on leisure, transport, furnishings, clothes, cars and tourism. The losses to transport and leisure will not be made up but spending on furnishings, clothes, cars and tourism are likely to be postponed rather than lost altogether.
- Irish exports are currently expected to fall by 5.0% in 2020, with some components of Irish exports likely to be more affected than others. Machinery and equipment and business services are likely to be particularly hard hit as a result of the fall in global investment, and the fall in consumption and restrictions on international air travel mean that tourism is likely to collapse over the quarter.
- From a regulatory perspective, reductions in capital requirements for banks will be needed. The Central Bank of Ireland reduced the Countercyclical Capital Buffer for banks to 0%. There is going to be a need for creative ways to ensure loan modifications can occur without being classed as non-performing in the long run. This is to ensure that bank lending continues in the recovery phase and a credit crunch does not ensue.

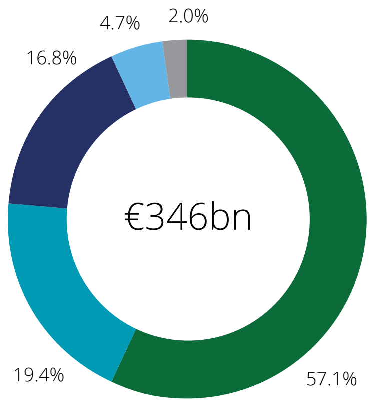
The speed of the economic downturn is unprecedented in modern times and in many respects exceeds that of the financial crisis.

Ireland is expecting an unprecedented decline in **consumer spending** through the crisis. This will have a severe impact on the economy with an expected decline in 2020 GDP in the region of **5%**.

Impacted sectors

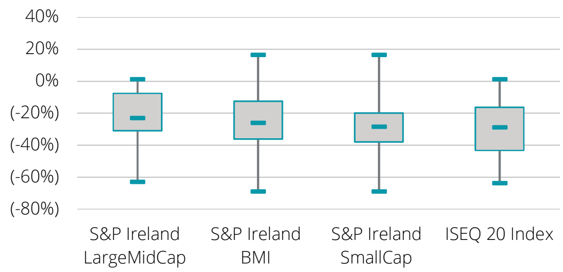
- The fall in consumer spending through the outbreak is likely to have a negative impact on all sectors.
- Losses to transport and leisure will not be made up but spending on furnishings, clothes, cars and tourism are likely to be postponed rather than lost altogether.
- Exports are expected to see a 5% fall in 2020, with some components likely to be affected more than others.

GDP
Breakdown by sector



- Manufacturing
- Transport
- Public Administration
- Construction
- Agriculture

Equity markets
Changes in market cap

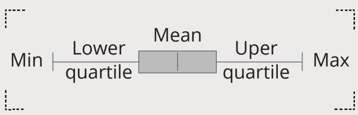


Heatmap
Expected impact

Desc	Manufac-turing	Transport	Public admin.	Construc-tion
Short term	M	H	N	H
Upside	N	M	N	M
Downside	M	H	N	H

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

The Irish government has introduced unprecedented financial measures in response to COVID-19:

- **SME Credit Guarantee Scheme** to support loans up to €1 million for periods of up to seven years. The purpose of the SME Credit Guarantee Scheme is to encourage additional lending to SMEs by offering a partial government guarantee to banks (currently 80%) against losses on qualifying loans to eligible SMEs.
- **COVID-19 wage subsidy** to allow employers to pay their employees during the current pandemic. Employers will be refunded up to 70 per cent of an employee's wages, up to a maximum amount of €410 per week. This to be in place for 12 weeks. The employer is expected to make best efforts to maintain as close as possible to 100% of normal income for the subsidised period.
- **Microenterprises can access COVID-19 loans** of up to €50,000 from Microfinance Ireland. Loans are available at an interest rate of between 6.8% and 7.8%. There is an option for a six-month moratorium on interest and loan repayments.
- **€200m Strategic Banking Corporation of Ireland (SBCI) COVID-19 Working Capital Scheme** for eligible businesses has been announced. The maximum loan size will be €1.5 million (first €500,000 unsecured) and the maximum interest rate will be 4%.
- **A €200m Package for Enterprise Supports** including a Rescue and Restructuring Scheme is available through Enterprise Ireland for vulnerable but viable firms that need to restructure or transform their business. Enterprise Ireland is also offering a grant of €7,200 to clients for financial review consultancy.
- **Deferral of business rates:** The government has agreed with local authorities that they should defer (until the end of May) payments of rates due from the most immediately-affected businesses, primarily in the retail, hospitality, leisure and childcare sectors.
- **Taxation measures to alleviate short-term difficulties:** Interest on late payments is suspended for January/February VAT and both February and March PAYE (Employers) liabilities.
- **All debt enforcement activity has been suspended** until further notice.
- **Enhanced emergency COVID-19 Pandemic Unemployment Payment** of €350 per week.
- **The five main Irish banks introduced an optional payment break** of up to three months for business and personal borrowers, along with a solution to ensure that COVID-19 applications for a payment break will not affect credit ratings. Banks will also defer court proceedings for three months.
- **Central Bank of Ireland has reduced the Countercyclical Capital Buffer**, from 1% to 0%. This will free up bank capital that can be used to provide credit, and to restructure and extend the loans of bank customers, both individuals and SMEs. Reducing this buffer to 0% will free up in excess of €1 billion of bank capital, which has the potential to support approximately €13 billion of restructured lending to bank customers in need of assistance. The Central Bank has confirmed that it will allow banks to dip into their rainy-day capital reserves to keep lending flowing. It is anticipated that this could free up considerable additional credit for households and businesses.
- **Bond sale by the National Treasury Management Agency** (NTMA) of Ireland, which manages the national debt and has a strategic investment fund. The NTMA has announced that it plans to appoint a group of banks to start marketing a large bond offering in April. The value of the deal is yet to be announced but is expected to amount to billions of euros. The funds generated will be used to combat the economic fallout from the virus.

The overarching policy concern should be twofold: protecting household incomes and ensuring businesses can survive the pandemic period and remain viable afterwards.

Spain

Spain has been one of the hardest hit economies in Europe. It is expecting a **large decline in tourism** as borders are locked down. The Government has implemented support measures focusing on **small businesses and the self-employed**.

Economic context

- Unlike 2008, the current crisis is driven by a collapse in activity, not a lack of access to credit. The biggest challenge that companies are facing is how to survive at a time when income is non-existent, and fixed costs remain largely unchanged.
- Following the first confirmed case of coronavirus in the country, the Spanish stock market index IBEX-35 collapsed, much like those in the rest of the world. The biggest impact was during the first few days of March, when Spain's principal stock exchange index collapsed to below 7,000 for the first time since 2012.
- The slowdown in the economy due to the lockdown has led to the loss of monthly growth and GDO has contracted by a historic 5.2%, a contraction that exceeds the estimates of Banco de España which forecast a drop of 4.7%.

With a total shutdown of all non-essential business, there is likely to be a large short-term fall in GDP. However a strong recovery is expected.

- However, it is expected that the downturn will be followed by a strong recovery, as economic activity is simply postponed until the outbreak of COVID-19 is under control.

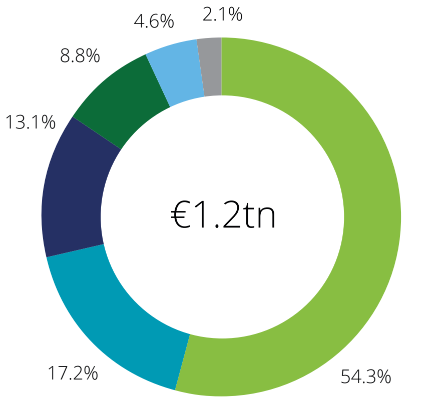
Impacted sectors

- The virus has spread to all regions of Spain , with the biggest impact in the Community of Madrid (which has the highest number of cases), the northern regions of Catalonia and the Basque country.
- Tourism, which currently accounts for 14% of Spain's GDP, will be one of the sectors worst hit by the crisis, with the closure of establishments and borders, and limitations on the movement of people.
- SMEs make up a significant portion of businesses in Spain outside the financial services sector and account for over 70% of total employment. SMEs are experiencing very high levels of stress as a result of COVID-19.
- The role of the logistics sector is crucially important. With the vast majority of consumer demand now being for e-commerce, logisticscompanies are set to benefit from an increase in demand for their services.
- Manufacturing companies are likely to suffer significant disruption following the implementation of nationwide restrictions to contain COVID-19. A suspension of all non-essential production activities was declared, which means that manufacturers of non-essential goods will face a temporary freeze in their business. The short-term impact of this suspension will be substantial.
- The construction sector will also be affected by the temporary suspension of all non-essential activities. A sustained downturn will reduce construction and housebuilding activity.
- For property developers, maintaining the level of construction that they had planned for this year will be difficult, and we would not be surprised to see prices fall as players try to cope with the situation as best as they can and cover their operating expenses. The high prices paid for land over the past two years could make numerous developments unprofitable.

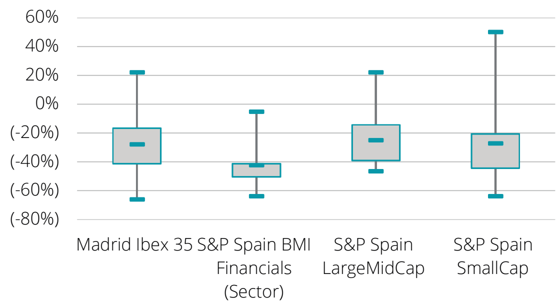
Impacted sectors

- The virus has spread to all regions of Spain , with the biggest impact in the Community of Madrid (which has the highest number of cases), the northern regions of Catalonia and the Basque country.
- Tourism accounts for 14% of GDP and will be the hardest by the restrictions.
- The logistics sector is likely to see a boost in demand, but manufacturing and construction will come to a near stop due to restrictions on non-essential activity.

GDP
Breakdown by sector



Equity markets
Changes in market cap

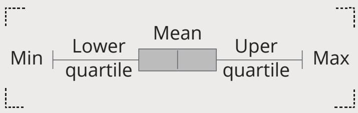


Heatmap
Expected impact

Desc	Services	Transport	Public admin.	Manufac-turing
Short term	M	H	N	M
Upside	N	M	N	N
Downside	H	H	N	H

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- **€100bn in loan guarantees** for companies and the self-employed in order to help them meet liquidity needs.
- **ICO (the official credit institute) net debt limit** is to be increased by €10bn in order to provide additional liquidity to companies.
- **An extraordinary insurance cover** line of up to €2bn has been authorised, lasting for six months.
- **A moratorium on loan payments** will apply to any loans granted for the purchase of a permanent residential property where the borrower is in a vulnerable position as a consequence COVID-19.
- **Tax assistance** is to be provided through the deferral of tax deadlines to 30 April 2020.
- **Suspension of directors' obligation to file for insolvency**, and any petition by creditors will not be filed until two months have passed following the end of the state of emergency.
- Employers will be entitled **unilaterally to suspend contracts** or reduce (by between 10% and 70%) the working time of their employees, with a proportional reduction in salary. Benefits will be made available to self-employed individuals who experience a 75% loss of income.
- **Unemployment benefits entitlement** for employees to compensate partially for the drop in salary they suffer, even if they do not comply with the necessary minimum period for entitlement.

Germany

Germany is expecting a contraction in GDP of between **4.5% and 9%** as a result of the COVID-19 pandemic. The government has implemented unprecedented measures in order to **support businesses**.

Economic context

- Germany is entering a recession in which the economy is likely to contract more than initially thought. Expectations of the contraction in GDP in 2020 range from 4.5% to 9% (Source: IFW), followed by a strong rebound in 2021.
- Part-time working schemes (Kurzarbeit) are being used to secure jobs. The number of people in part-time work is likely to increase in the next few months and the unemployment rate is expected to rise noticeably with estimates suggesting an increase between 0.5% and 5.6% (Source: Deutsche Bank Research).
- Manufacturing output, capital goods production and the automotive sector will be amongst the sectors most affected, with the smaller and medium-sized firms likely to struggle more than large corporates.
- Banks have already started to provide short-term support to clients, involving debt repayment solutions, new debt packages and relief-focused products (including insurance). KfW (the government-owned bank) has also started to offer supportive measures in order to provide countercyclical lending to help stabilise markets.
- Non-performing loans in Germany are currently about €33bn: these could rise substantially, particularly in the manufacturing sector. The ease of access for loans up to €800k, without the banks assuming any of the risk means that companies are not addressing the operational issues and the performance of the real economy is no longer visible. This will likely result in more insolvencies and NPLs.
- There will be heavy pressure on German public finances, particularly due to the unlimited volume of credit that has been announced by KfW. The rate of recovery from the crisis will also depend on the rate of the recovery among Germany's major trading partners.

Banks

A number of measures have been implemented by banks, including:

- Proactively engaging with sectors of the economy that are most severely affected and discussing innovative financing solutions with clients. These solutions mainly involve debt repayment, such as a moratorium on mortgage repayments or extended maturity on trade loans, as well as new debt packages (e.g. new working capital financing solutions) and new relief-focused products (e.g. ad-hoc relief insurance for customers).
- Deployment of agile and highly-reactive stress testing to anticipate diverse scenarios.
- Implementing measures for the current financial year to prepare for a downturn in business and lower revenues.
- Ensuring business continuity: this involves the deployment of new ways of working, new health (protection) measures, and business-related travel restrictions.

Banks will have to take additional actions to navigate the crisis in the medium term, such as the implementation of a more robust framework for low-probability/high-impact events and a migration to digital sales and services which will become even more important if physical contact (proximity) is not possible.

Some experts predict that Germany is facing a contraction in GDP of up to 9%, with a strong recovery in 2021, albeit slower than what other countries are predicting.

Sector impact

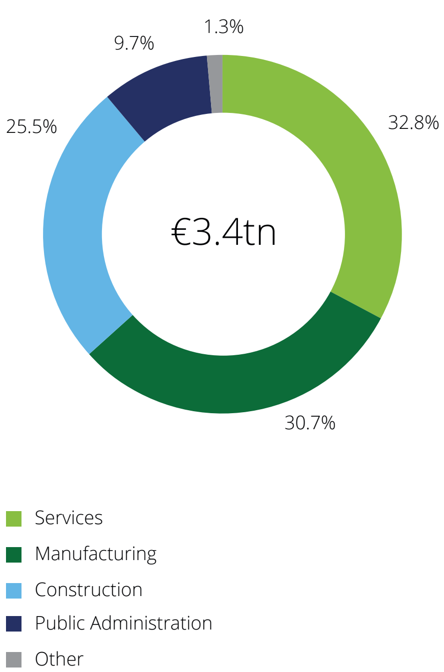
- Manufacturing accounts for about 33% of Germany's GDP; and Germany has a large current account surplus on its balance of payments.
- This is expected to be severely affected by the global shutdown, with factories forced to close temporarily, and exports of goods nearing a halt.
- Germany's main export is motor vehicles, with several 'household' German names. Germany is also a European production hub for other brands such as Ford and Opel.
- Germany also has a large service sector, contributing over 25% to the country's GDP and employing over 50% of its workforce.
- The largest component within the services sector is business services. Financial services are the second-largest in Europe after the UK. Through remote working, the provision of many services will continue; however with the unprecedented impact of COVID-19 on markets, services are expected to decline dramatically and there may be a lasting impact.
- The construction sector has seen little impact to date as the majority of construction is pre-sold. Currently work is continuing on virtually all sites and the sector continues to operate at near capacity. The long term-impact is less clear with uncertainty over future demand for office space, hotels and ultimately new housing.
- The recovery in new private and residential construction projects is likely to be slow as big ticket expenditure will be the last to return to normal.

Germany's large manufacturing sector includes many multinational companies that will be well-equipped to weather the storm, given sufficient state support.

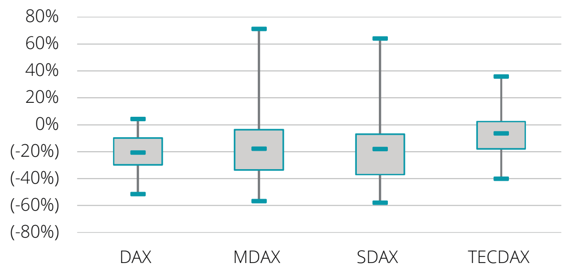
Impacted sectors

- Manufacturing is expected to experience a major contraction; however Germany's current account on its balance of payments is likely to remain in surplus.
- The services sector is likely to be more resilient, but will nevertheless experience a declin, particularly in tourism.
- Public administration is playing a large part in combatting the economic effects of the crisis.

GDP
Breakdown by sector



Equity markets
Changes in market cap

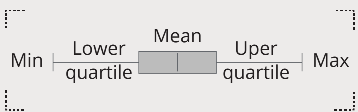


Heatmap
Expected impact

Desc	Manufac-turing	Public admin.	Services	Construc-tions
Short term	M	N	M	N
Upside	N	N	N	M
Downside	M	N	H	H

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

Multibillion euro assistance programme

- KfW, the state-owned development bank, is making an **unlimited** volume of credit available through **various loan programmes** to provide liquidity to businesses, self-employed individuals and freelancers. Affected companies can access KfW loans through their primary bank.
- The government is establishing an **Economic Stabilisation Fund (€600bn)** that is targeted towards large companies and equipped to provide large-scale funding to strengthen the equity base of companies via guarantees or recapitalisation instruments. The fund supplements the liquidity assistance programmes that have previously been introduced by KfW.
- The government is setting up a **€50 billion immediate assistance programme** (Soforthilfe) to support small businesses, freelancers, and the self-employed. These grants are to be one-time payments to cover operating costs for three months, and they do not have to be paid back.
- Health-related measures such as providing **liquidity to hospitals and doctors practices** have been introduced.
- The tax authorities are providing assistance to companies of all sizes to strengthen their liquidity. The following measures are to apply until the **end of 2020** for businesses directly affected by the pandemic:
  - Tax payment deferrals
  - Adjustment of tax prepayments
  - Enforcement measures for tax seizures to be suspended
- **Self-employed** individuals will be given easier access to **basic income support** (Grundsicherung) to ensure that they can support themselves and pay for their housing. Means-testing procedures will be suspended for six months, and payments are to be disbursed quickly.

Italy

The Italian economy will rely on its banking system to exit the post COVID-19 crisis. Banks are crucial for avoiding a wave of defaults across economic sectors, **transmitting liquidity** to the system and **re-starting economic activities** in a disrupted global economy.

The economy post-COVID-19

- In a matter of weeks Italy went from the discovery of the first official case of COVID-19 (21 February) to a government decree (22 March) that essentially prohibited all movements of people within the whole territory, and the closure of all non-essential business activities. As one of the first European countries to face widespread contagion, Italy found itself two weeks ahead of its neighbours.
- Together with a holiday period for many loans and tax payments, the government has taken steps to mobilise c.€750bn of financial resources. The so-called 'Cura-Italia' bill sets out to provide financial support in order to sustain almost all sectors of the Italian economy.
- Following the recent updates on the spread of the virus, the Italian Premier has signed a new decree, gradually relaxing the stringent lockdown measures. The 'soft-impact' scenario of the economy shrinking in the first half of 2020 and rebounding in the second half is a likely outcome from an economic perspective.
- Restructuring undertaken over the past decade has resulted in an economy more capable of facing the current challenges. However, the Italian industrial and financial system is likely to face difficult times in 2021, with moratorium periods expiring and businesses requiring working capital credit facilities and financing for production and new investment projects.
- Although the deterioration in asset quality expected by banks is less than during the 2008 financial crisis, lenders need to prepare themselves, assessing upfront the risks they on-board in financing the recovery and developing a strategy to control and mitigate them.
- For financial institutions, mapping their loan book risks will enable them to manage the upcoming challenges and opportunities with a more informed view of the risk and return profile.

Banks

- Having lost almost 35% of their value in the last months, banks are having to navigate the uncharted waters of the new business environment, with ratings agencies looking at a large part of the banking system with a less positive outlook.
- In a deteriorating operating environment, with the potential impact on the asset side and tougher terms on the financing side, lenders are acting to support the economy as much as possible, transmitting the liquidity and the financial support to households, SMEs and large corporates across the country that the government is deploying.
- The strategy of the banking sector is fully aligned with that of the Italian government. The primary aim is to maintain production capacity in the economy during the lockdown and make available the financial resources needed in the post COVID-19 world to protect both the supply side and demand side of the economy.
- At a time of increased credit risk, a relationship-based financial system can deliver a more personal approach and tailored credit solutions for borrowers. This will ensure flexibility, prompt actions and risk control. This will prove critical in managing financial tensions and addressing the early signals of distress.

Italian businesses see the need to develop technologically and re-invent themselves in order to survive.

Sector impact

- The virus spread rapidly throughout the country, but with the largest number of confirmed cases in the northern regions which are the main drivers of the economy.

Services and tourism

- Logistics and transport , together with tourism and leisure, are the most affected sectors, with a potential drop in revenues ranging from 13.7% up to 30.2%.
- As a consequence of the government's 'stay at home' policies, transport businesses, hotels, shops and restaurants are also severely affected, with no expectation of recovery in the short term.
- On the other hand companies with developed e-commerce facilities and those dealing in essential goods such as pharmaceuticals and food are seeing a continuing level, if not an increase, in activity.
- Business and professional services are relying on technology and home working solutions to achieve business continuity.

Manufacturing

- The government have required manufacturers of non-essential companies to suspend activity. Companies have reacted by re-inventing themselves to help fill the shortages in supply of safety and medical equipment. Among them, Ferrari has produced components for breathing aid equipment and Armani is supplying disposable protective overalls.

Agriculture

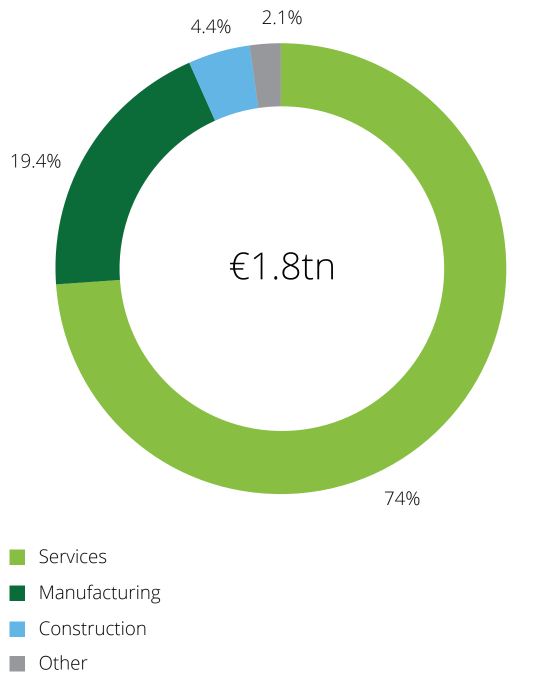
- Farmers are challenged by a need for seasonal workers: a large portion of the agricultural workforce is normally made up of seasonal immigrants who cannot cross borders into the country during the crisis.

Impacted sectors

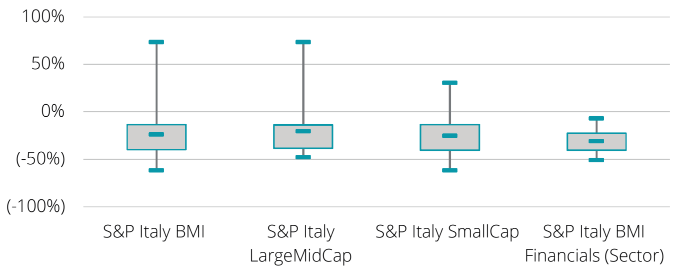
- The manufacturing sector will be bearing the costs related to closing down and restarting the supply chain but also dealing with increased health and safety precautions. A milder impact may be experienced by companies which maintained their activity or developed and re-invented themselves during the lockdown period.
- The tourism, retail and leisure sectors will suffer the longest as social interaction is the main cause of the rapid spread of the virus. Food delivery and e-commerce operations will inevitably increase.
- The financial and other professional sectors have been less disrupted due to the adoption of 'smart-working' by companies and their employees. The technology investments made and understanding of the benefits will see this trend continue.

GDP

Breakdown by sector



Equity markets
Changes in market cap

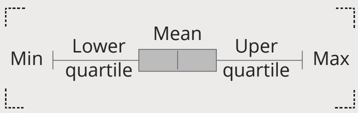


Heatmap
Expected impact

Desc	Services	Manufacturing	Constructions	Agriculture
Short term	M	M	M	N
Upside	N	N	N	N
Downside	H	M	H	N

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

Support and liquidity to the Italian businesses through the banking system

- One of the most interesting aspects of the bill is the guarantee on the new lending and financial restructuring to the Italian SMEs, which can obtain up to €5m of new money backed by a guarantee of 100% on loans of EUR800k and less, and 90% on loans over EUR800k.
- For large Corporates, the government has made available guarantees on refinancing of between 70% and 90% depending on the turnover and number of employees of the company.
- A moratorium period of 6 months can be activated by each performing Italian business suffering a temporary liquidity tension following the spread of the COVID-19 outbreak.

Measures to protect employment and householders

- As well as the suspension of any redundancy plan and related litigations, the decree provides the possibility for the Italian firms to apply for a redundancy fund ("Cassa Integrazione"), normally granted by the government in case of company restructuring or insolvency, to guarantee 80% of the ordinary salary to the employees at most for a period of 9 weeks.
- The independent contractors can also claim a tax-exempt payment of €600 to cover any missed income experienced in March 2020.
- In addition, the government has set aside €300m to recognise an indemnity to the employees and self-employed persons who have seen their income reduced following the COVID-19 outbreak.
- First home mortgages below €250k can benefit of up to 9 months payment holiday. This measure has been also extended to independent contractors and self-employed in case their annual income has been negatively affected by the outbreak.

Support to the banking system

- Tax benefits available to financial institutions to sell NPE portfolios by December 2020. This benefit is structured to convert unutilised DTAs and ACE[1] into a tax credit and reduce the P&L and Capital impact generated by sale of portfolios of UTP credit (more than 90 days past due) and "Bad Loans" for a maximum disposal amount of GBV €2bn and the maximum DTA convertible amount not exceeding the 20% of the nominal value of the portfolio.

The Italian government responded to the crisis through the 'Cura Italia' decree, setting out the emergency measures required to protect consumers and businesses from insolvency.

Greece

As part of measures by the ECB, approval has been given for the Pandemic Emergency Purchase Programme which is a separate scheme to buy a wider range of sovereign bonds, including short-term sub-investment grade bonds.

Economic context

- Greece exited its latest bailout in 2018 and was recovering after a protracted debt crisis and recession.
- As at December 2019, Greek unemployment stood at 16.3%, one of the highest rates in the European Union.
- A postponement of stress tests by a year and more favourable treatment of RWAs for the senior notes under the Hercules structure point to regulatory easing towards Greek banks, with NPL reduction targets also likely to be eased and reassessed in the near term.

Impacted sectors

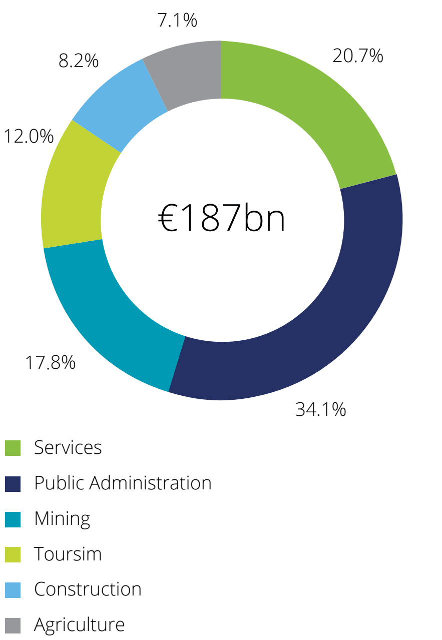
- The tourism sector is highly seasonal and contributes about 12% to the Greek GDP. This sector will be severely affected by the travel bans and restrictions in movement, however we note Greece, relative to other European countries has managed to sustain lower levels of COVID-19 cases, which may reflect Greece as a safer travel destination than other European holiday destinations.
- Due to lower sustained cases, Greece is expected to begin easing restrictions sooner than some other European countries and consensus seems to be for a 'V' shaped recovery, with real GDP contracting substantially in the first half of 2020, and with recovery starting in the second half of the year.
- Bearing this in mind, a careful assessment and appropriate implementation of mitigation measures by all sectors will be important to reducing impacts and further restrictions.

Impacted sectors

- Tourism, being a major source of employment in Greece is going to be significantly impacted and in turn taking its toll on the wider economy.
- It is also expected that the slowdown will impact the efforts of Greek Banks to improve performance and clean up their balance sheets in 2020.
- The domestic and commercial property recovery will be hindered as a result, impacting NPL deleveraging.

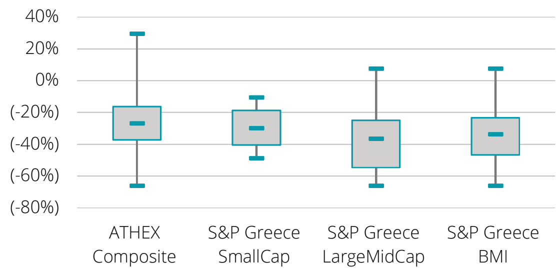
GDP

Breakdown by sector



Equity markets

Changes in market cap



Heatmap

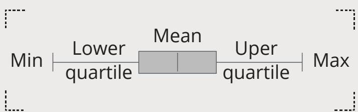
Expected impact

Desc	Public admin.	Services	Manufactur-ing	Constructions
Short term	N	M	M	H
Upside	N	N	N	M
Downside	N	H	M	H

Key

Equity markets

Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Regulatory responses

Lowering surplus target

- The government revised its primary surplus targets to 2.5% of GDP from 2020 to 2022, challenging an agreement with creditors in the euro area and the IMF for a primary surplus of 3.5%, while for FY20 both parties seem to agree that a primary deficit is expected. The government stated it still expects to meet its debt obligations despite the lower surplus, and transferred €5.5bn to an escrow account from state reserves to provide a cash guarantee for the loans.

ECB bond buying:

- As part of the ECB bond buying programme, the Pandemic Emergency Purchase Programme has been established to buy a wider range of bonds. This programme is in addition to plans to purchase €360bn of bonds under an existing QE scheme (PSPP) and includes short-dated bonds down to 70 days (for the PSPP it is 1 year), with limit per bond, and the scheme includes **junk-rated Greek government bonds** (the PSPP requires investment grade bonds).

NPL target implications

- The Single Supervisory Mechanism (SSM) is expected to be accommodating to Greek banks on NPL reduction targets, at least in the near term. For example two portfolios that are being marketed for sale, Neptune (€1.8bn) and Galaxy (€12bn), have been delayed until Q3 2020 by the seller (Alpha Bank).

Government economic measures

- Four-month **deferral of tax** and social-contribution payments.
- **Mandatory rent relief** for businesses (for 60% of rents for business premises in March and April) and for the employees of affected businesses (40% relief for rent on primary residences).
- **€1 billion loan scheme:** state lending to companies, repayable on preferential terms.
- **Suspension of loan payments** to banks until end of September. Affected entities will pay contractual interest.
- Fast-track clearance of state arrears to the private sector (tax refunds up to €30,000).
- These measures are expected to benefit some corporations affected by the COVID-19 outbreak and **prevent a more significant deterioration in asset quality**.
- Transfers to vulnerable individuals, including a €800 cash grant to individuals working in hard-hit firms; also an extension of unemployment benefits by two months.
- From 18 March the government announced an across the board ban on lay-offs, for approx. 2 months, for businesses falling under the state's beneficial economical measures for COVID-19, which results to potential lay-offs considering null and void from that date.
- A scheme for state guarantees on working capital loans to mainly SMEs but also Corporate borrowers has been announced. The state guarantee level will be up to 80% of the loan while the maximum disbursed loan amount will not exceed either the 25% of borrower's FY19 revenues or the double borrower's personnel cost for FY19

France

The French government is focused on **preserving jobs** across all industries via a **€350bn support package to the economy**. A 1% GDP contraction in 2020 is becoming a likely scenario with the public deficit expecting to skyrocket towards 7% of GDP.

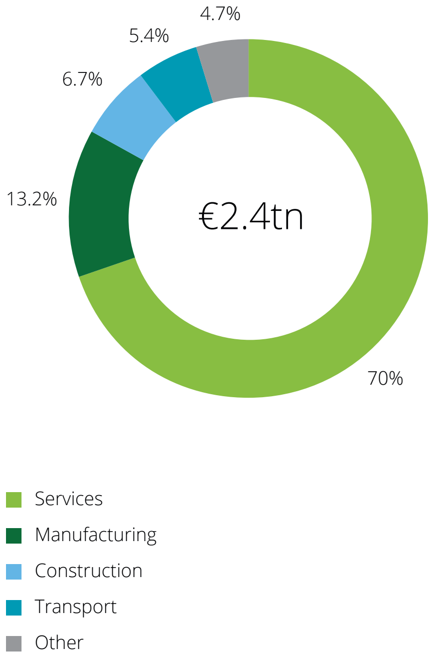
The French government is preparing for a peak in COVID-19 in April

- Early signs suggest that the outbreak in France has reached its peak, with over 14,000 deaths.
- Structural challenges in France including high public sector debt and expenditure, rising private sector indebtedness, high structural unemployment, and sluggish productivity. These are all likely to suffer further from COVID-19.
- However, the large public sector may act as a cushion in the crisis, with more than six million employees in public-funded entities.
- Food and beverage companies, supermarket chains, and e-commerce and tech companies will benefit, if they are able to protect their workforce.
- The tourism and hospitality sectors which contribute about 11% to GDP, are amongst the worst-hit sectors.
- The French CAC 40 index fell by 26%, with falls of around 45 % in some securities.

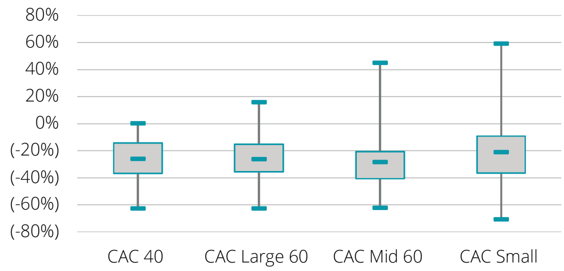
Impacted sectors

- Both the services sector and manufacturing are significantly affected by the pandemic.
- Transport, storage and supply chains are challenged by large shifts in demand patterns.
- Tourism and hospitality account for 11% of GDP. With a large proportion of tourism in France concentrated in summer, the full impact will be dependent on the duration of pandemic.

GDP
Breakdown by sector



Equity markets
Changes in market cap



Heatmap
Expected impact

Desc	Services	Manufac-turing	Construc-tions	Transport
Short term	M	M	H	H
Upside	N	N	M	M
Downside	H	M	H	H

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index

Min | Lower quartile | Mean | Uper quartile | Max

Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- **Immediate €45bn funding** (€32bn for March) to postpone companies' fiscal social security tax payments.
- **€300bn state guarantee package** to support companies and associations, in the form of bank loans for up to 25% of annual turnover or two years of personal wages.
- For SMEs in difficulties, **suspension of payments on rent, utility bills, taxes and social charges** and a €2bn lifeline in March to fund a **€1,500 subsidy for freelancers** and the smallest SMEs.
- **Partial unemployment grants** to employees (representing 84% of their net wage) paid in full by the government on registration by the employer, amounting to a minimum of **€8.5bn over two months**.
- €4bn has been announced to **support start-ups**.

Portugal

The Portuguese Government is using state guarantees, the banking system and easing of tax obligations to mitigate the economic effects of COVID-19. Such measures aim to improve the liquidity of companies and independent workers.

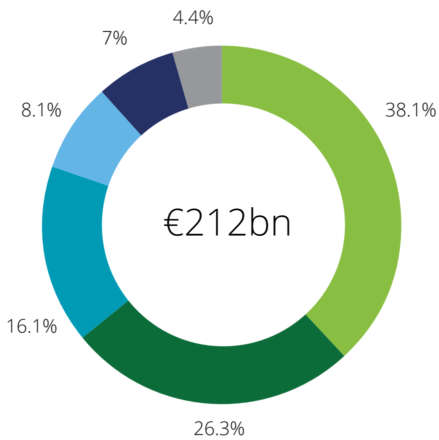
Economic context

- Among Western European countries, Portugal has had a smaller number of COVID-19 confirmed cases and deaths, in relative terms.
- However, the pandemic will have severe effect on GDP, which has grown on average by 2.4% per year since 2015 , led mainly by tourism, the property market and exports.
- Tourism accounts for about15% of the country's GDP and employs about 10% of its work force.
- As a responsive measure, the government has provided a €3bn state-guaranteed credit line to the tourism, restaurant and manufacturing industries, of which c.33% is specifically for SMEs. Further complementary credit lines and incentives have been announced to support business continuity.
- Companies have also been helped by flexible payments of taxes, social contributions and suspension on rent payments (for both individuals and companies) under certain conditions.

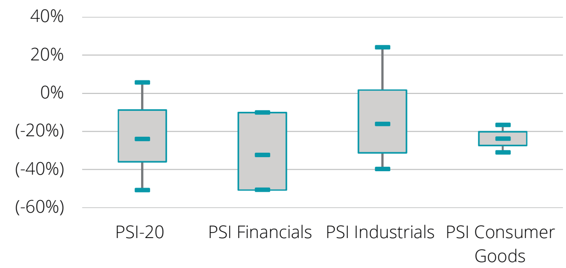
Impacted sectors

- Portugal will rely on its improving technology sector to help tourism.
- Global exports of manufactured goods have been affected, as well as the 50% state-owned TAP airlines which has suffered from the travel restrictions.
- Portugal provides professional services to several Portuguese-speaking countries in Africa , where the effects of COVID-19 are still unknown.

GDP
Breakdown by sector



Equity markets
Changes in market cap

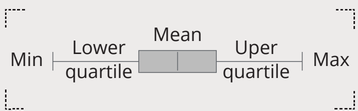


Heatmap
Expected impact

Desc	Services	Manufac-turing	Transport	Construc-tions
Short term	M	M	H	M
Upside	N	N	M	N
Downside	H	M	H	H

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- **A banking moratorium** for families and companies: All payments to banks and other financial institutions that are due in the next six months are suspended until 30 September 2020. The measure is applicable to all companies regardless of their size, as well as to loans for the purchase of permanent housing for families most affected by the crisis.
- The measures the government increase the immediate liquidity of companies and independent workers and the benefits amount to approximately €9.2bn: €5.2bn in the area of tax payments; €3bn in state guarantees for loans, and €1bn in the contributions.

Cyprus

Cyprus is heavily dependent on **tourism** and related services, which accounted for **21.9% of GDP** in 2019. COVID-19 will lead to the cancellation of a large proportion of 2020 bookings, but operators that can weather the storm will likely thrive again when the economy recovers.

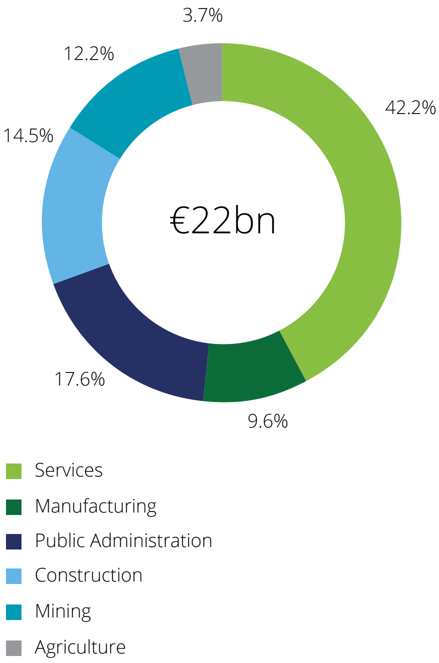
Economic context

- The Cypriot banking sector was one of the biggest casualties of the 2008 banking crisis, with the country experiencing the highest levels of NPLs in Europe.
- Much work has been done by the government and banks to reduce NPL levels from their peak of 49% in May 2016, to 29% in November 2019. Sweeping reforms in the insolvency and judiciary environment have made Cyprus more creditor friendly, enabling successful NPL deals in the past two years.
- COVID-19 however poses a risk to the banking sector. The tourism industry contributed c.EUR2.7bn to GDP in 2019, yet it seems likely that the majority of summer 2020 bookings will be cancelled due to the virus and ensuing travel restrictions.
- By acting quickly and decisively, and leveraging the experience of the past decade, banks will be able to weather this storm.

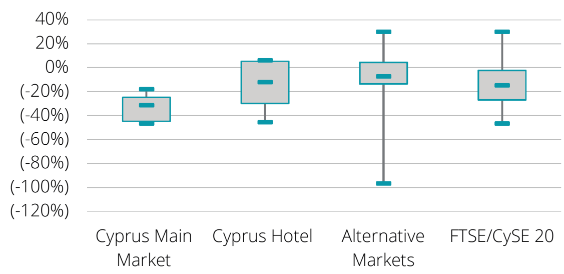
Impacted sectors

- With its superb climate and convenient location, Cyprus has been a successful and popular tourist destination for decades. 21.9% of GDP was generated from tourism in 2019.
- COVID-19 is bringing tourism to a halt in 2020, and there are likely to be knock-on effects for retail, construction, manufacturing and real estate. The effects will be temporary but will require prudent and careful management.

GDP
Breakdown by sector



Equity markets
Changes in market cap

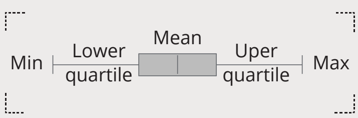


Heatmap
Expected impact

Desc	Services	Public admin.	Construc-tions	Transport
Short term	M	N	N	M
Upside	N	N	M	N
Downside	H	N	H	M

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- The government has implemented an **economic aid package worth over €1.3bn** (around 5.4% of GDP) to directly support businesses and workers for an initial period of three months (and further support for the following four months), to postpone payment of VAT liabilities and submission of tax returns, to reinforce the healthcare sector and to help revive tourism post crisis.
- For the 9 months up to December 2020, a bill implemented allows the **moratorium/suspension of loan repayments** (capital and interest) for borrowers with no delinquency of more than 30 days. A liquidity injection from the banking sector to the economy.
- The House of Representatives approved a bill amending the Rent Law, **freezing all eviction notices** and court procedures up to the 31 May 2020.
- Further, any foreclosure proceedings have been frozen for a period of 3 months, up to mid June 2020.

Sweden

Sweden has not imposed a complete lockdown, but a strong recommendation to stay at home and avoid gatherings has kept consumers away. Furthermore, many Swedish companies have halted production due to supply shortages.

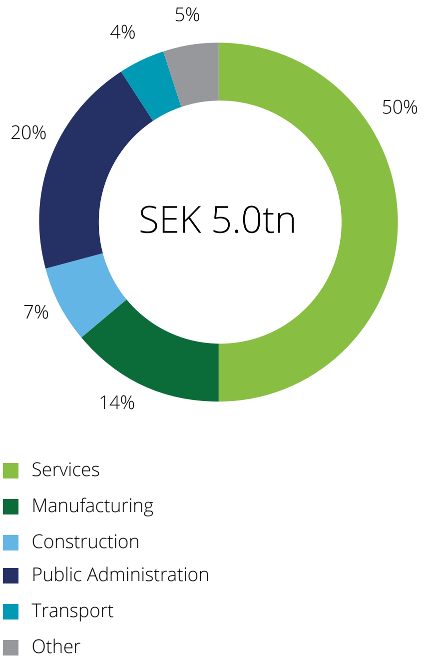
Economic context

- Sweden has imposed restrictions on non-essential foreign travel, and closed its borders to non-EU visitors. Unlike other Nordic countries however, lockdown measures were not enforced. However the population in general is limiting unnecessary contact and consumption has fallen substantially.
- Sweden's government expects the economy to contract by as much as it did during the global financial crisis of 2008. GDP in 2020 is expected to contract by 4% (based on forecasts as at March 2020).
- The financial system is considered resilient, with profitable banks that have sufficient capital and liquidity. Furthermore, the authorities stand ready if necessary to lower the countercyclical buffer requirement in order to help banks support lending activities.

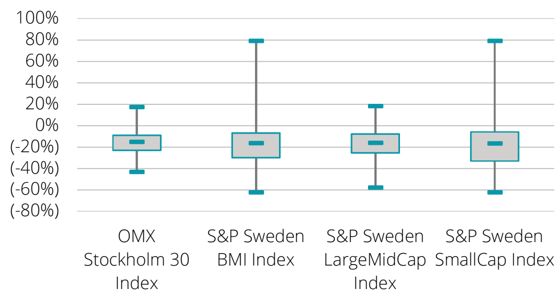
Impacted sectors

- Sweden is service-led economy that also relies on exports of timber, hydropower and iron ore.
- Public sector spending accounts for 20% of GDP. This is likely to increase significantly in the current crisis, supporting consumer confidence.
- Sweden has yet to enforce lockdown measures. This should protect businesses to some extent; however there has been a large decline in consumer demand.

GDP
Breakdown by sector



Equity markets
Changes in market cap

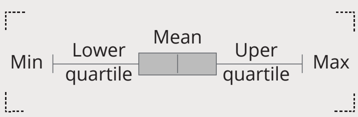


Heatmap
Expected impact

Desc	Services	Public admin.	Manufac-turing	Construc-tions
Short term	M	N	M	H
Upside	N	N	N	M
Downside	H	N	M	H

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- The Swedish authorities estimate that the **fiscal package they have announced amounts to between SEK380bn and SEK668bn** (about 7% to 13% of 2019 GDP).
- Measures include **additional expenditure** on wage subsidies for short-term leave, temporary payment of sick leave, loans to SMEs, more funding to the cultural and sports sectors and for education and training, rent subsidies to certain sectors, more generous unemployment benefits, expanded active labour market policies, and a temporary reduction in employers' social security contributions.
- **Deferral** of a maximum of three-months of **payments of companies' social contributions, VAT and payroll taxes**, for a period of up to 12 months.
- Support payments towards fixed costs for businesses suffering a **greater than 30% decline in revenue**.

Denmark

The Danish government has acted swiftly to provide financial support to individuals and businesses. Consumer confidence is likely to remain relatively high, but an economic recession in 2020 is very likely.

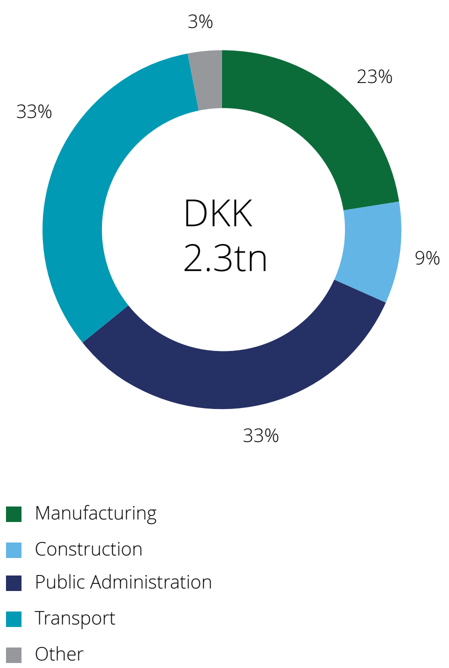
Economic context

- Denmark was quick to impose severe restrictions, ordering the closure of private businesses and shutting its borders. The government is now seeking to lift these measures gradually.
- The country is expected to slide into a recession. The Danish National Bank has estimated a contraction in GDP in 2020 of between 3% and 10%.
- The impact of the coronavirus outbreak on the Danish banking sector has been substantial. Market capitalisation among banks has fallen by approximately 25%. Banks have been granted authority to release countercyclical capital buffers.
- There may be an increase in demand for unsecured credit in the medium term, and there is a risk that several players may not have a long-term future given the potential severity of the crisis.
- Salary compensation measures and large household savings are expected to support consumer purchasing.

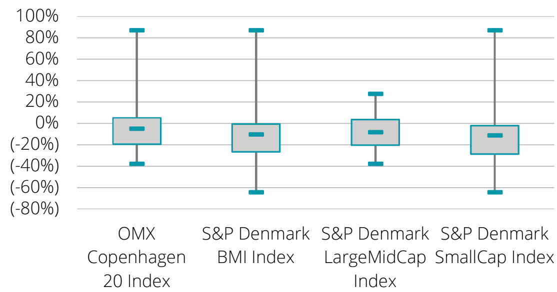
Impacted sectors

- Public spending in Denmark is much higher than in similar European countries, and social security is supportive, protecting consumer confidence.
- Public finances will be greatly affected by the crisis, putting a strain on public sector spending.
- Transport, construction, and manufacturing are also critical sectors of the Danish economy where activity has been greatly restricted.

GDP
Breakdown by sector



Equity markets
Changes in market cap

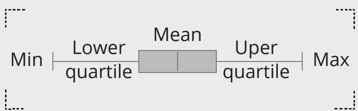


Heatmap
Expected impact

Desc	Public admin.	Transport	Manufac-turing	Construc-tions
Short term	N	H	M	H
Upside	N	M	N	M
Downside	N	H	M	H

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- Denmark has introduced one of the largest aid packages relative to the size of its GDP, amounting to about 12% of GDP.
- **Postponed payments of VAT, labour market contributions and payroll tax:** VAT payments can be postponed from 30 days up to six months, depending on the size of the company (as measured by revenue).
- **Government guaranteed loans:** Larger companies (> 250 employees, DKK372m in revenue and DKK320 in assets) have access to government-guaranteed loans.
- **Salary compensation:** Up to 75%, aimed at private companies facing a lack of orders and customers.
- **Other compensations:** For corporate fixed costs, salaries of employees on sick leave, cancellation of large events.

Norway

Public sector spending in Norway is much higher than in other Western countries, and with a strong social security system, consumer confidence is likely to remain higher than in other countries. However, managing the impact of oil and gas price volatility will be a specific area for focus.

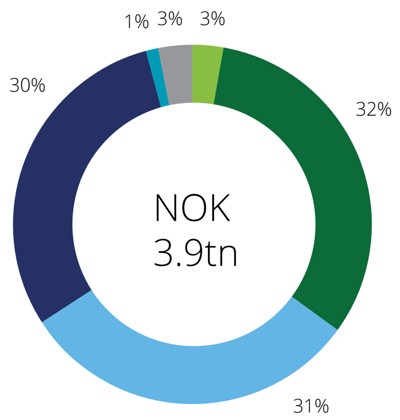
Economic context

- On 12 March Norway became one of the first European countries to impose lockdown restrictions on its population.
- The virus has been brought under control relatively quickly; however it has caused great economic stress and resulted in hundreds of thousands of layoffs.
- Norway will reopen kindergartens from 20 April and schools a week later; however many restrictions will remain "for a long time".
- Due to the outbreak, 70% of companies have reported lower demand and cancellations of orders , with 85% saying it may be appropriate to reduce production.
- GDP is forecast to contract by 5% in Q2 of 2020 and by 3% in Q3, followed by limited growth of around 1% in the following two quarters.
- The long-term economic impact of Norway's fast action is yet to be seen, with a quicker return to normal expected. Low levels of immunity may increase the likelihood and potential severity of a second wave of the epidemic.

Impacted sectors

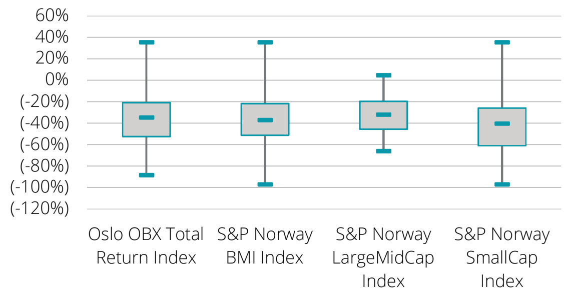
- The majority of Norway's GDP is derived from manufacturing and construction.
- There are high levels of state ownership in Norway, particularly in natural resources. The state controls about 35% in value of all securities listed on the OSE.
- Norway is a large exporter of oil, which has seen a drastic fall in prices.

GDP
Breakdown by sector



- Utilities
- Manufacturing
- Construction
- Public Administration
- Mining
- Agriculture

Equity markets
Changes in market cap

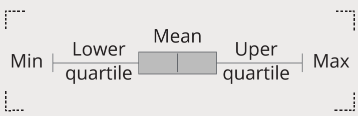


Heatmap
Expected impact

Desc	Manufacturing	Constructions	Transport	Utilities
Short term	M	H	N	N
Upside	N	M	N	M
Downside	M	H	N	M

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- Norway has introduced a financial stimulus package equivalent to **4% of GDP**, including NOK3bn specifically for the aviation industry, as well as a deferral of tax prepayments to 1 May.
- **Funding of temporary lay-offs of employees**, with companies paying for the first two days, and the government for the next 18. Funding thereafter is to be provided by the government at a reduced rate.
- Norway has introduced a **lending and loan guarantee scheme** that allows SMEs to borrow up to €5m with a term of up to three years, with the state guaranteeing 90% of the loan.
- The Government has proposed to reinstate the Government Bond Fund, offering bond purchases of up to NOK50bn.

Finland

"Government debt will become a two-digit figure when measured in billions. If the first figure is two and we manage to keep manufacturing export industries going, then we'll survive somehow." – Katri Kulmuni, Minister of Finance

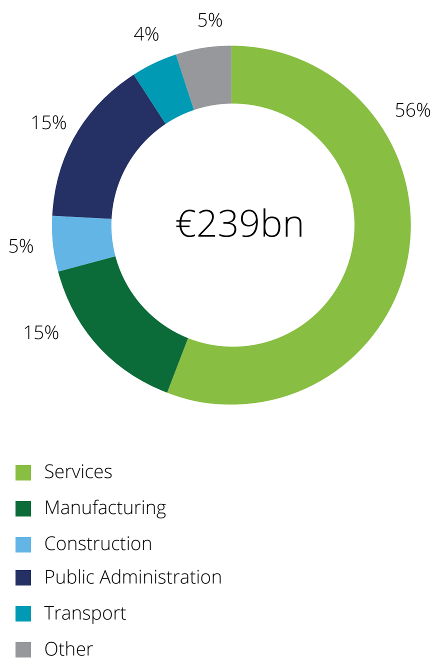
Economic context

- The Finland government declared a state of emergency as a result of the coronavirus outbreak.
- Severe restrictions on public life were imposed, including closures of borders and non-essential businesses, as well as restrictions on public meetings and gatherings.
- As at 7 April the OMXH25 had declined by 21% since the beginning of the year, from 4,222 to 3,337 points.
- Finland's Finance ministry has forecast a contraction in GDP of at least 5.5%, and has announced that is could be as much as 12% if the restrictions relating to COVID-19 were to continue for up to 6 months.
- The government has introduced an economic stimulus package of €15bn, equivalent to 6% of GDP.

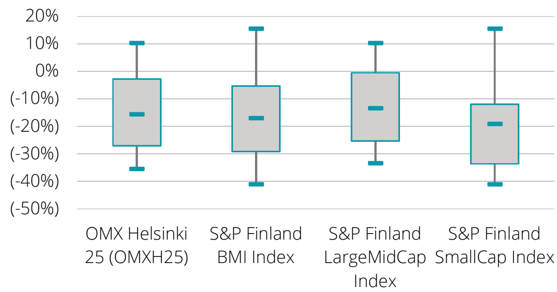
Impacted sectors

- Finland's economy is heavily focused on services, which account for 69% of GDP.
- Foreign trade is a key factor in the country's economy accounting for approximately one-third of GDP.
- Having developed a strong high-technology industry, Finland's main exports are electronics and metals.
- Public spending also forms a large portion of GDP: this will inevitably increase.

GDP
Breakdown by sector



Equity markets
Changes in market cap

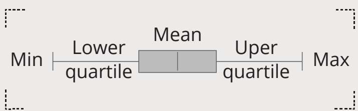


Heatmap
Expected impact

Desc	Services	Manufac-turing	Public admin.	Construc-tions
Short term	M	M	N	H
Upside	N	N	N	M
Downside	H	M	N	H

Key

Equity markets
Distribution of percentage change in market capitalisation year-to-date of the component companies within each index



Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- Finland has introduced an extensive financial aid package of approximately €15bn (6% of GDP).
- Business financing is provided by Finnvera, Business Finland, ELY Centres and Finnish Industry Investment.
- Mainly lending and loan guarantee schemes, as well as grants for immediate business support and development needs.
- Additionally, the Finnish tax authority will temporarily ease the tax payment arrangements for businesses, and the Ministry of Finance is preparing a lower interest rate on the late payment of taxes that are covered by a payment schedule.

Austria

Austria's government's fiscal aid package, one of the most ambitious among the EU countries relative to its size, includes financial guarantees for bridging loans, industry-specific direct capital injections, tax deferrals, and a short-time work scheme.

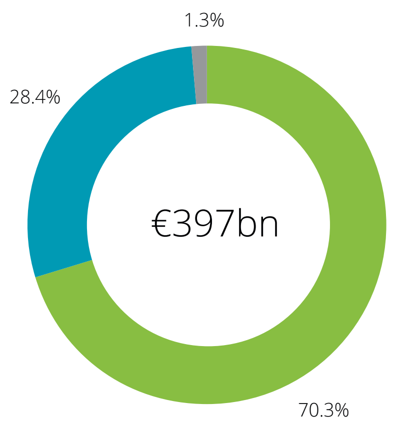
Economic context

- Before the COVID-19 outbreak, the Austrian economy recorded 1.7% GDP growth in 2019, and had an unemployment rate of around 8%.
- With its proximity to North Italy, a number of Austrian ski resorts became hotspots for the spread of COVID-19 in Europe.
- With a lockdown in place since 16 March, Austria was one of the first countries in Europe to impose severe restrictions on public life and non-essential businesses. The lockdown measures started to be released on 14 April, due to the crippling effect they were having on the economy.
- The economy is highly exposed to external demand from its main trading partners, including Germany. As such Austria is significantly reliant on the impact of the crisis on Germany.
- Growth forecasts vary widely, but there is a consensus that the economy will contract in all quarters of 2020.

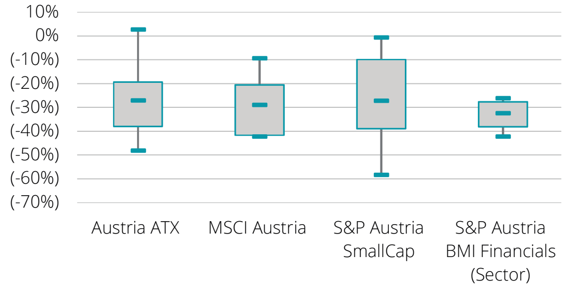
Impacted sectors

- Austria has a service-led economy accounting for 70% of GDP, with ski-tourism an important part.
- Most tourism is in the winter: with the second half of the season ended prematurely.
- Manufacturing makes up 13% of GDP, with a significant part comprising high-tech and luxury goods, for which demand is expected to decline.

GDP
Breakdown by sector



Equity markets
Changes in market cap



Heatmap
Expected impact

Desc	Services	Manufac-turing	Construc-tions	Transport
Short term	M	M	N	H
Upside	N	N	M	M
Downside	H	M	H	H

Key

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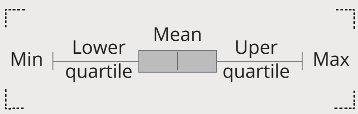


Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- The total fiscal aid package amounts to **€39bn**, the equivalent of **10% of GDP** making it one of the largest aid packages (relative to size) in the EU to date.
- The 'Corona Short-time work' is a **salary compensation scheme** where companies can send employees home and have the costs of their pay covered. The scheme runs for three months and funded with €1bn.
- **A crisis management fund** was initially endowed with €4bn: this was increased to **€38bn** a few days later. The aid will address liquidity pressures and compensate self-employed and family business for losses (€4bn); corporates in industries that are particularly affected will be 'paid directly' (€15bn); provisioning for loan guarantees for large corporates and SMEs (€9bn); and tax deferrals (€10bn).

Belgium

Belgium is facing an emergency at a time when the country's politicians **struggle to form a permanent government**. But Belgium has shown that a **fragmented country** can still produce a clear response to the crisis.

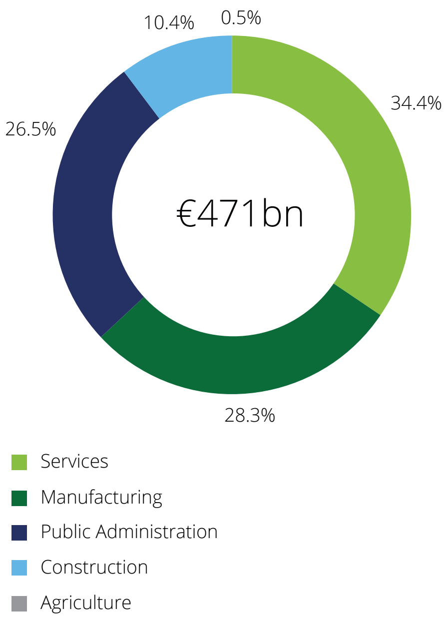
Economic context

- After almost a year of deadlocked negotiations to form a permanent government, the minority government immediately took steps and introduced a lockdown.
- Before the outbreak, the Belgium economy recorded GDP growth of 1.4% in 2019, and the same was expected for 2020.
- Belgian economic growth is typically driven by investment and household consumption, both severely affected by the protective responses to COVID-19.
- As a consequence, recent estimates are for an economic contraction in 2020 in the range of 4% to 10%.
- The economic recovery is expected to be slow in 2020, but strengthen in 2021, supported by the large public sector spending.
- Despite the fact that banks are well capitalised, and with a NPL ratio below the EU average, the banking sector could become vulnerable to the pandemic.

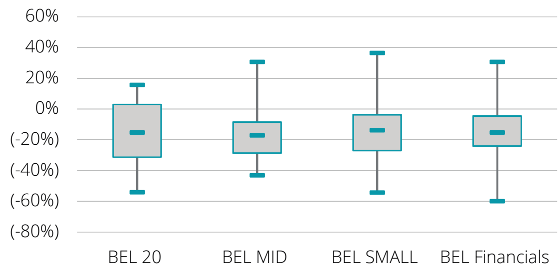
Impacted sectors

- Services (largely financial services) account for 38% of Belgium's GDP.
- Manufacturing makes up 24% of GDP, with Germany the largest export destination. The sudden shutdown and fall in external demand could affect this sector severely.
- Public administration also contributes substantially to GDP, and spending is likely to increase, to provide some stability to employment and incomes.

GDP
Breakdown by sector



Equity markets
Changes in market cap



Heatmap
Expected impact

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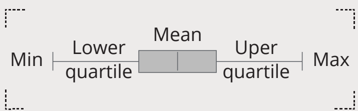


Heatmap

H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- The Federal Government is providing up to **€50bn in loan guarantees** for the banking sector, which will be used to cover any losses on loans by banks. There are specific conditions: no late payments on 1 February 2020 or less than 30 days late as of 29 February 20, and not in the process of active credit restructuring.
- In addition to these federal actions, regional governments have also announced support measures, which will be channelled mainly through **regional investment vehicles** (i.e. PMV and Sogepa).

The Netherlands

In order to preserve employment, the **Dutch government** announced a temporary salary compensation programme for employees of businesses in difficulty, up to **90% of salary costs**. Even so, a recession for 2020 is the likely outcome.

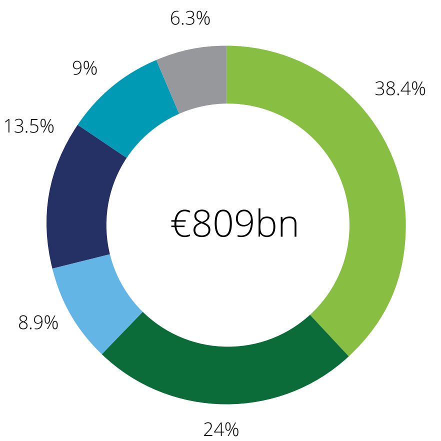
Economic context

- The Netherlands closed its borders to all individuals outside the Schengen area, in addition to those coming from risky areas in Europe – measures unimaginable under normal circumstances for a country well-known for its international trade.
- Its main trading partners(Germany, UK, US China) are also under severe restrictions, so even for a well-diversified economy the effects of the COVID-19 outbreak will be crippling.
- The CPB Netherlands Bureau for Economic Policy Analysis released a report indicating that no matter how long the pandemic continues (ranging from 3 to 12 months), there will be a recession in the country. In the best-case scenario, the Dutch economy will contract by about 1% in 2020, and in the worst case it will contract by around 8%
- Dutch public debt is not yet in the danger zone and can be used to support any package to sustain employment levels.

Impacted sectors

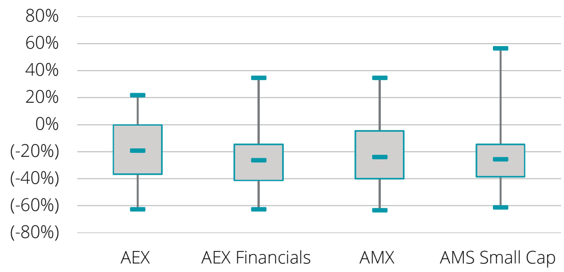
- The Netherlands is heavily reliant on global trade for manufacturing and has a large current account surplus on its balance of payments. The pandemic is will hit both supply chains and demand.
- The country also has a large tourist industry which has collapsed since the crisis began.
- Depending on the duration of the restrictions, there could also be a big impact on financial services.

GDP
Breakdown by sector



- Services
- Manufacturing
- Construction
- Public Administration
- Transport
- Other

Equity markets
Changes in market cap



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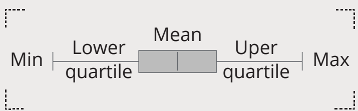


Heatmap

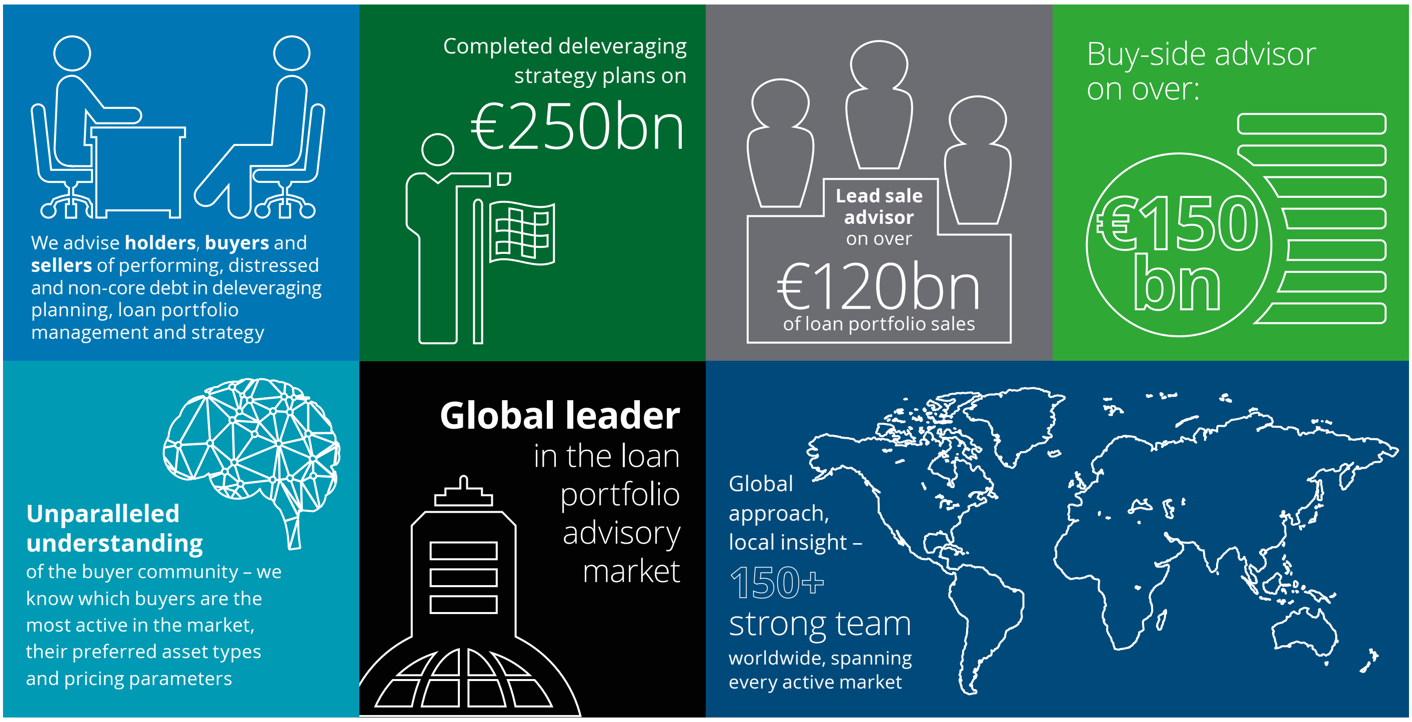
H	High impact	N	Neutral impact
M	Medium impact	P	Positive impact

Government economic measures

- The government has announced a fiscal package that includes spending measures of about **€10-20 billion (1% – 2% of GDP)** in the next three months. This provides compensation of up to 90 percent of labour costs for companies expecting significant revenue loss, compensation for affected sectors (hospitality, travel and others), and support for entrepreneurs and the self-employed.
- Companies can **defer tax payments** without penalty, and calculate provisional tax on the basis of their expected reduced activity levels.
- Additionally, there are **several niche programs of financial aid** aiming to support entrepreneurs and specific industries such as NOW, TOZO, TOGS and ETS, and credit programs such BMKB-C, BL-C, COL, GO, and others.

Portfolio Lead Advisory Services ("PLAS")

Specialist team within Deloitte that operate as the Global Centre for Excellence for Loan Portfolio Advisory Services, bringing together global experts across geographies.



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Notes

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