



Covid-19 Crisis: Ideas for CROs / CFOs

Discussion Document
March 2020

ALVAREZ & MARSAL



TABLE OF CONTENT

-
- 0 Executive Summary

 - 1 Covid-19 Impact in the Economy

 - 2 Covid-19 Banking Impacts

 - 3 Preliminary A&M Risk Estimates

 - 4 Bank CRO and CFO Response






 - 5 How can A&M help

Key challenges faced by Banks in the context of Covid-19

We outline our perspectives of Covid-19 impact in banks in the context of changing client needs and increased credit risks. We identify strategic response actions for bank CROs and CFOs.

- Purpose of this Document**
- To review and discuss the key challenges being faced by Banks and potential management strategies in the response to the Covid-19 crisis
 - Identify and quantify to the extent possible changing client needs and credit exposures at risk

- The banking system faced profitability and efficiency challenges prior to the emergence of Covid-19. The economic shock derived from the virus outbreak creates material changes in client needs and risks:

		Client Needs 	Risk Profile 	Bank Actions 
Covid-19 Bank Impact	Individuals 	<ul style="list-style-type: none"> No new loan origination Need for financial advice Online services 	<ul style="list-style-type: none"> Increased risk in mortgage, consumer and self employed loans 	<ul style="list-style-type: none"> Mortgage moratorium S2 / S3 consumer loans Cash enhancers
	Corporate & SMEs 	<ul style="list-style-type: none"> Short term cash needs No new long term loans Public sector financing 	<ul style="list-style-type: none"> Oil & energy, transport, retail trade, tourism, hotels, food & entertainment 	<ul style="list-style-type: none"> Maximize state guarantee S2 / S3 loans Issuer stress testing / limits

- This document outlines three areas that are set to be the priorities for CROs and CFOs of banks:

CRO and CFO Actions	01 	Client Management	<ul style="list-style-type: none"> Develop proactive client management strategies across all segments clustering clients in at risk, no impact and opportunity
	02 	Financial Planning & Risk Management	<ul style="list-style-type: none"> Reforecast 2020 and adjust scenarios, capital and liquidity plans Credit risk impact analysis and client risk clustering for actions
	03 	Stakeholder Management	<ul style="list-style-type: none"> Communicate to investors impacts and scenario analysis results Work with governments / regulators to manage short term impacts

Bank Financial Impact of Covid-19 (1 of 2)

Bank income and cost of risk will be impacted by Covid-19 further deteriorating efficiency and profitability

Covid-19 Qualitative Impact – A&M Spain Banking Pulse

	Metric	Q4 '2018	Vs	Q4 '2019	Score 2019Q4	Score 2018Q4	Covid19 impact
Growth	Loans and Advances Growth (YoY)	-1.9%	↑	-0.2%	2.7	3.3	↓
	Deposits Growth (YoY)	0.0%	↑	3.5%			↑
Liquidity	Loan-to-Deposit Ratio	96.4%	↘	93.0%	1.3	1.7	↑
Income & Operating Efficiency	Yield on Credit (YTD)	2.32%	↗	2.36%	1.5	1.4	↓
	Cost of Funds (YTD)	0.29%	↘	0.29%			↘
	Net Interest Margin (YTD)	1.19%	↗	1.19%			↓
	Non-Interest Income / Operating Income (YTD)	40.8%	↗	40.8%			↘
	Operating Income (YTD) / Assets	2.0%	↗	2.0%			↓
	Operating Revenue Growth (YoY)	0.0%	↓	-0.2%			↓
	Cost-to-Income Ratio (YTD)	60.0%	↗	61.4%			↑
Risk	NPL ratio	5.63%	↓	4.66%	2.1	2.3	↑
	NPL Coverage Ratio	50.4%	↗	50.5%			↘
	Cost of Risk (YTD)	0.26%	↑	0.31%			↑
Profitability	RoE (YTD)	7.6%	↘	7.5%	2.7	2.7	↓
	RoA (YTD)	0.4%	↘	0.4%			↓
	RoRWA (YTD)	1.1%	↘	1.1%			↓
Capital	CET1 Ratio FL	11.9%	↗	12.3%	2.7	2.9	↘
	Leverage ratio (%)	5.5%	↗	5.5%			↘
Total Score					2.2	2.4	

Key Covid19 impacts in the short-medium term

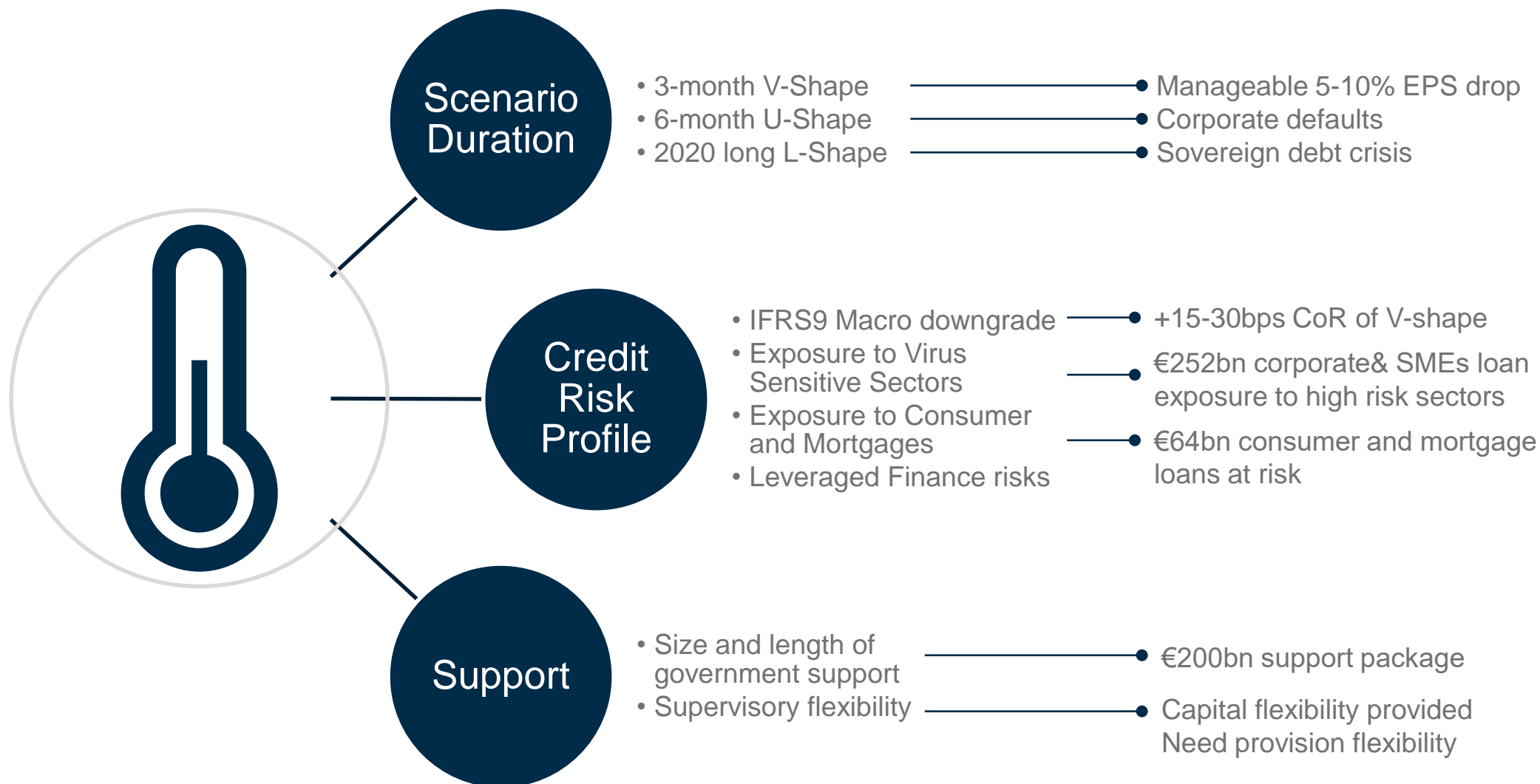
- 1 Despite Corporate/SME growth in the ST, L&A overall credit to continue deleveraging. Depos likely to increase (flight to quality) and liquidity risk low
- 2 Net interest margin further declines due to lower rate environment. Flat funding cost
- 3 Operating income margin will be reduced due to margin decline and lower fees due to declining volume
- 4 C/I ratio will deteriorate as a result of income decline and flat operating expenses
- 5 CoR and NPL to increase driven by macro scenario and higher defaults. Expected flexibility of supervisory NPL definitions
- 6 RoE will be affected by the reduced margins and increased cost of risk
- 7 CET1 fully loaded ratio will fall driven by P&L with SSM showing flexibility in buffer consumption. Capital distributions likely to be reduced

Source: SNL Financial and A&M Analysis

Bank Financial Impact of Covid-19 (2 of 2)

Severity of impact will depend on duration of scenario, credit risk sensitivity to Covid-19 shock and government / regulatory responses.

Covid-19 Quantitative Impact – Driving Factors





Section **1** |

Covid-19 Impact in the Economy

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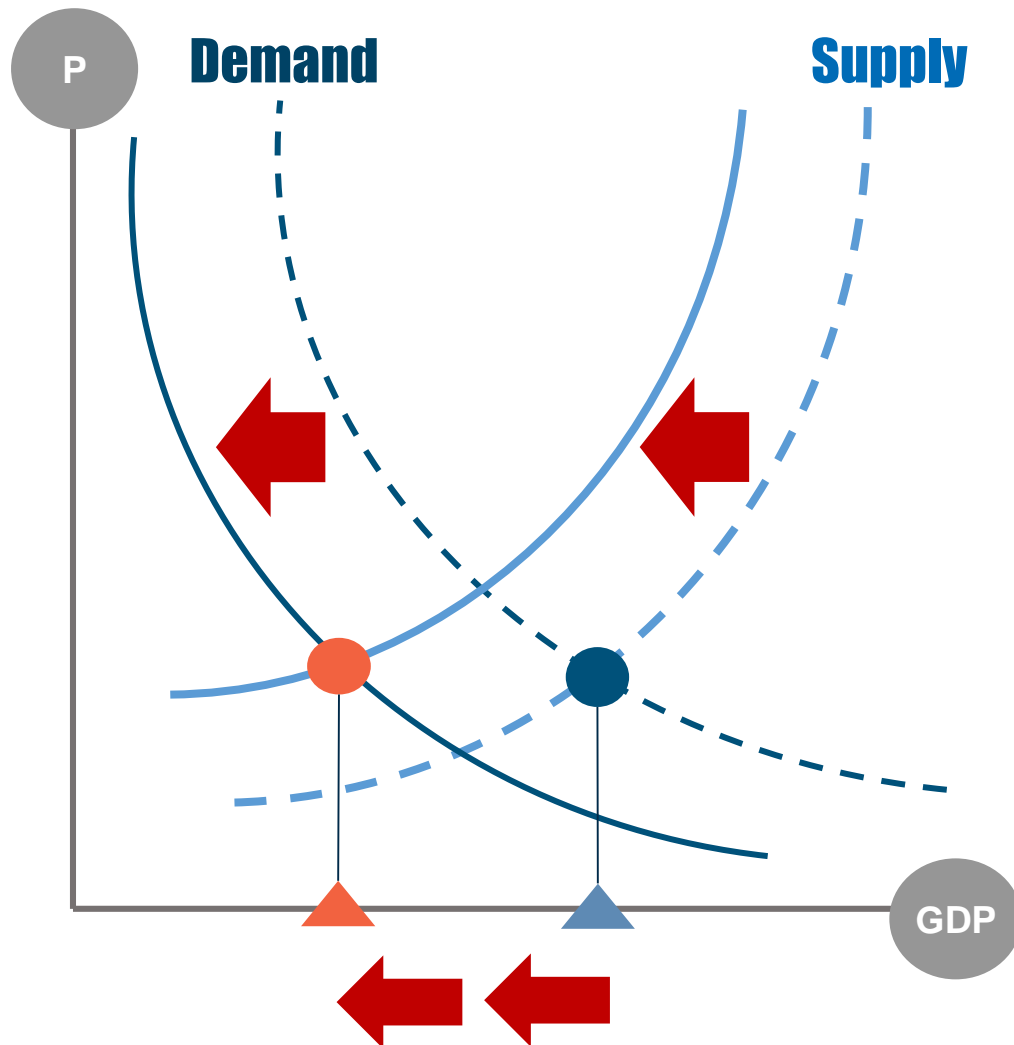


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Economic Impact of Covid-19

Covid19 has unleashed a very dangerous economic turmoil due to the fear of a simultaneous contraction of Demand and Supply that can have a deeper impact than Supply or Demand Driven Recessions.

Covid-19 Economic Impact – Double Contraction Effect in Supply and Demand



Supply

- Industries that are unable to move to remote working are exposed to temporary close.
- Service sectors that attend consumption face a reduction in output levels.

Demand

- Self Isolation and restrictions that are needed to contain the virus reduce consumption and demand for goods

Economic Impact of Covid-19

We have identified 7 high risk sectors that are most sensitive to Covid-19 supply and demand shocks that banks will have to carefully monitor.

		COVID-19 Risk Assessment		Shock		
				Supply	Demand	
Agriculture and Fishing			• Supply chain disruption due to workforce, materials and logistics			
Industrial	Extraction & Mining		• Extraction disruption due to workforce combined with lower demand			
	Manufacturing	Food & Beverage		• Supply disruption due to materials / logistics offset by higher demand		
		Oil Refinery		• Oil price collapse due to global demand hit and oversupply		
		Chemicals		• Supply chain disruptions combined with lower demand is most areas		
		Minerals		• Supply chain disruptions combined with lower demand		
		Steel		• Supply chain disruptions combined with lower demand		
		Transport Materials		• Factory shutdown combined with lower production		
	Oil, Gas, Electricity and Water		• Energy consumption reduced			
Construction			• Supply chain disruption combined with lower demand			
Services	Wholesale and Retail Trade		• Store closures and lower consumption except for food & pharmacies			
	Accommodation and Food Services		• Tourism services, hotels, bars and restaurants halted			
	Transportation and Storage		• Airlines, shipping, train and car sectors disrupted due to interruption			
	Financial activities and Insurance		• Neutral impact due to rebalancing of client financial service needs			
	Real Estate Services		• Disruption created by lower demand			
	Arts, Entertainment and Recreation		• Entertainment closures and sports interruption			
	Public Services		• Health services highly demand to combat virus			
	Information and Communication		• Demand for remote working technology and online channels			

Economic Impact of Covid-19

First set of observable impacts indicate material impacts in the economy. Financial Markets decline and increased volatility anticipate significant economic disruption.

Tracking CHINA Data as an indication of a Base Case Scenario for the following Quarters

CHINA DATA YTD (FEB20) 1 MONTH IMPACT

Industrial Output	▼ -13.5%
Retail Sales	▼ -20.5%
Fixed Assets Investments	▼ -24.5%
Urban Unemployment	▲ +6.5%
Shanghai Stox	▼ -12.7%

Global Markets drops are anticipating material earnings declines, pending government reaction

MARKET IMPACT SINCE OFFICAL OUTBREAK Year to Date (16 March)

MSCI Global	▼ -27.8%
SP 500	▼ -26.1%
Euro Stoxx	▼ -34.6%
Ibex35	▼ -36.4%
European High Yiel Bonds	▼ -13.7%
Oil	▼ -57.9%

Source: SNL Financial and A&M Analysis

A&M – Ideas for CROs / CFOs

Central Bank / Government / Regulatory Response of Covid-19

Public support responses will help offset the financial impacts of Covid-19 in bank P&L and capital.

- Central Banks have reacted reducing interest rates and injecting liquidity by increasing Bond Purchasing Programs and Long Term Lending Programs
- Bank Regulators have reduced Solvency and Liquidity Buffers in order to provide Banks with enough capacity to absorb potential future losses and provide liquidity support to corporates and individuals.
- Governments are announcing Economic Packages to Provide Support and stop the Economic Contraction.

	Size of Package	 Corporate & SME Support Measures	 Individuals Support Measures
ES SPAIN	<ul style="list-style-type: none"> • 200 €Bn 117 Public 83 Private 	<ul style="list-style-type: none"> • 100 € Bn State Guarantees • Temporary Layoffs Social Security Subsidy • 2 € Bn Comex Support • Annual Accounts Delay • Insolvency Proceedings freeze 	<ul style="list-style-type: none"> • Mortgage temporary (1 month) relief with no banking provision impact for layoffs reduction of income. • 70% Subsidy for Self Employed
FR FRANCE	<ul style="list-style-type: none"> • 300 €Bn 	<ul style="list-style-type: none"> • Public Guarantees • Nationalisations 	
IT ITALY	<ul style="list-style-type: none"> • 300 €Bn 	<ul style="list-style-type: none"> • Public Guarantees • Nationalisations 	<ul style="list-style-type: none"> • Mortgage temporary relief
DE GERMANY	<ul style="list-style-type: none"> • 500 €Bn 	<ul style="list-style-type: none"> • Public Guarantees 	
US US	<ul style="list-style-type: none"> • 1.25 Bn\$ 	<ul style="list-style-type: none"> • PENDING 	<ul style="list-style-type: none"> • PENDING

Source: Financial Times and A&M Analysis
A&M – Ideas for CROs / CFOs



Section 2 |

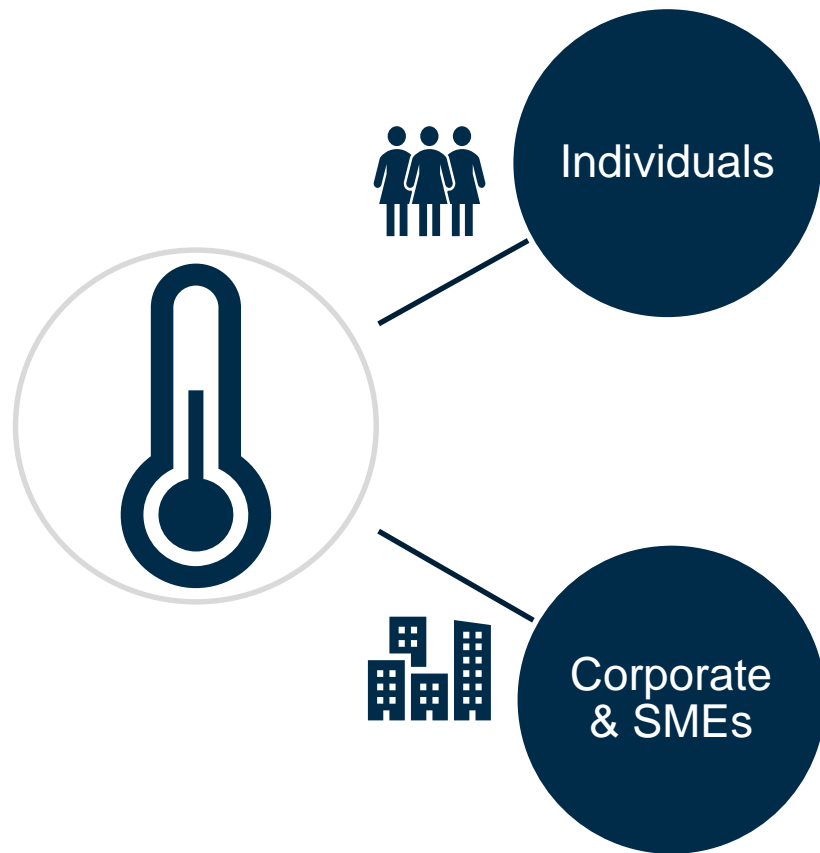
Covid-19 Banking Impacts

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Covid-19 Banking Impact – Based on Clients Needs & Risk Profile



 Client Needs	 Risk Profile	 Bank Actions
<ul style="list-style-type: none"> • Mostly online services with no interaction in branches • Increased need for savings financial advice • No origination of mortgages or consumer loans • Refinancing and short term cash needs 	<ul style="list-style-type: none"> • Inability to implement pricing or commission increases • Mortgage, consumer and self employed loans will be the most sensitive asset classes due to unemployment 	<ul style="list-style-type: none"> • Focus on managing credit risk of bank affluent segment through mortgage moratorium • Manage S2 and S3 of consumer loans • Short-term liquidity enhancers for high risk individuals and self-employed clients
<ul style="list-style-type: none"> • Focus on short term cash management and refinancing needs • Limited long term loan origination • Increased financing needs of public sector • All banking activity performed using online channels 	<ul style="list-style-type: none"> • High risk sectors include oil & energy, transportation, retail trade, tourism accommodation & food and entertainment • Expect migration to S2 and S3 across all sectors • Expected stress in leveraged finance 	<ul style="list-style-type: none"> • Short-term liquidity enhancers for highly risk sensitive sectors leveraging state guarantees to optimize capital and provision • Manage S2 and S3 of all loans • Issuer stress testing and revised limits

Covid-19 Banking Impact – Individuals Client Needs



Client needs by Segment, Product and Channel



- Mostly online services with no interaction in branches
- Increased need for savings financial advice
- No origination of mortgages or consumer loans
- Refinancing and short term cash needs

Product Portfolio

- Mortgage
- Consumer
- SME Loans
- Savings
- Payments
- Insurance
- Services

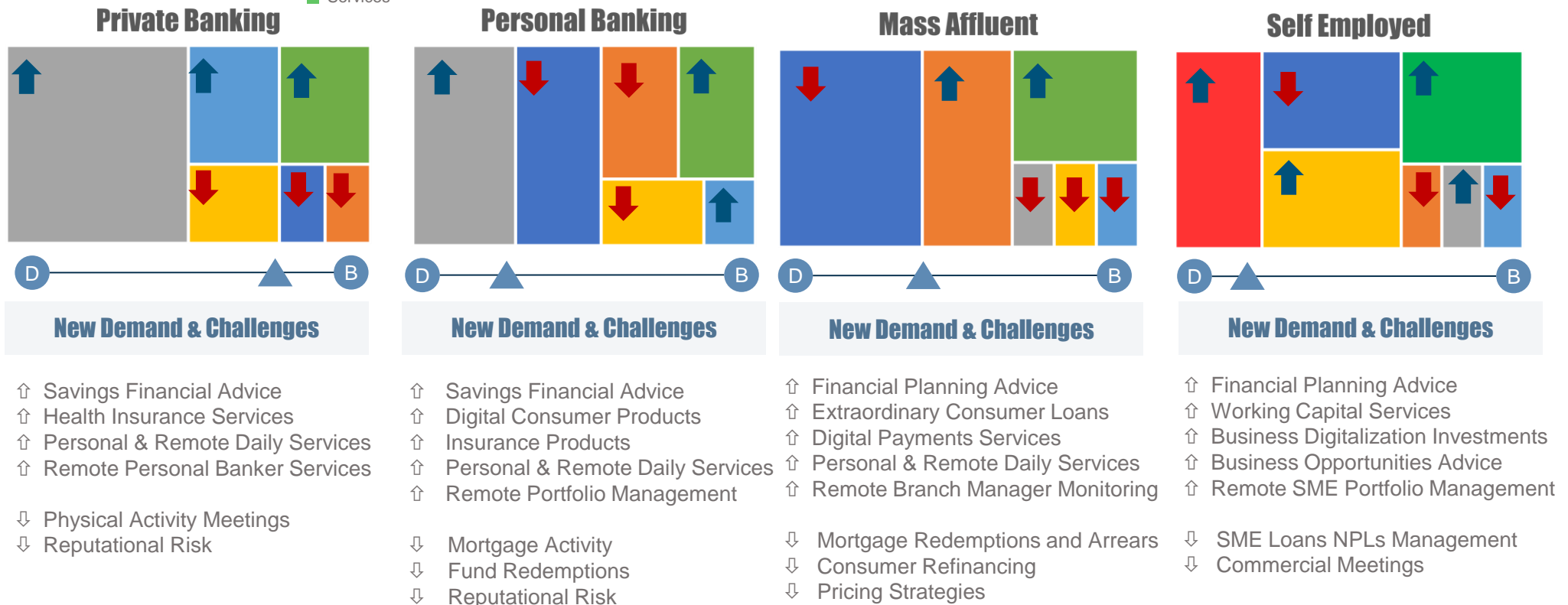
Channel Client Activity

- Ⓚ Digital
- Ⓚ Branch



Product/Service Increase

Product/Service Contraction



Source: Client Volume and New Demand and Challenges - A&M Analysis

Covid-19 Banking Impact – Individuals Risk Profile

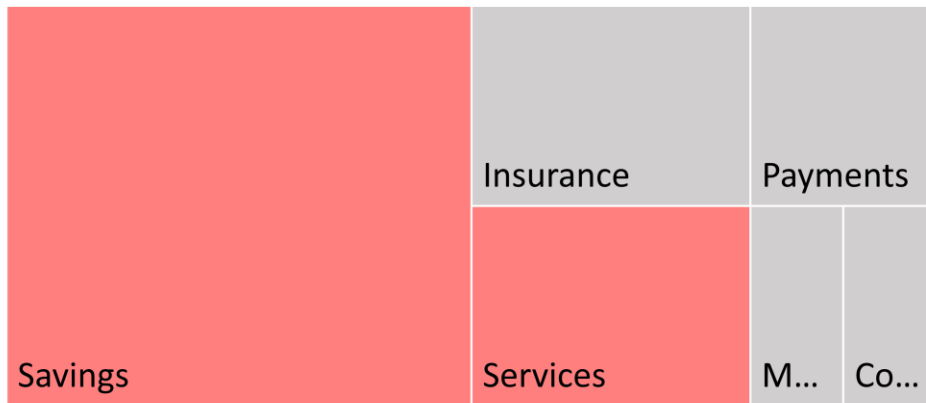


Impact by Segment and Product

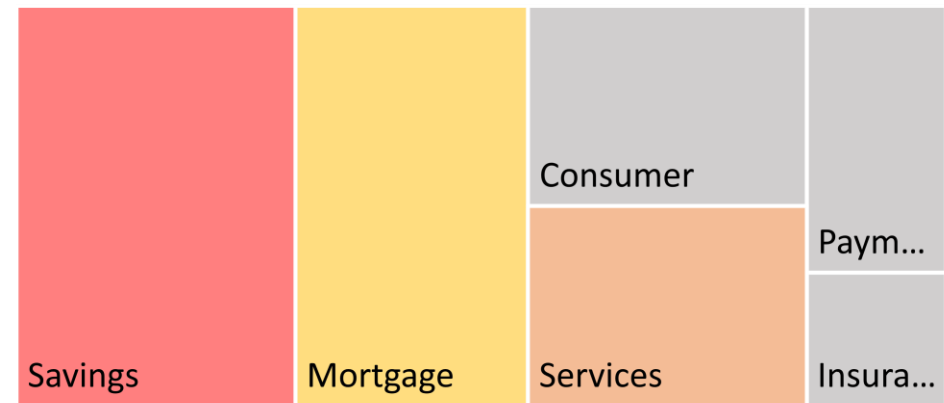


- Inability to implement pricing or commission increase strategies
- Mortgage, consumer and self employed loans will be the most sensitive asset classes due to unemployment

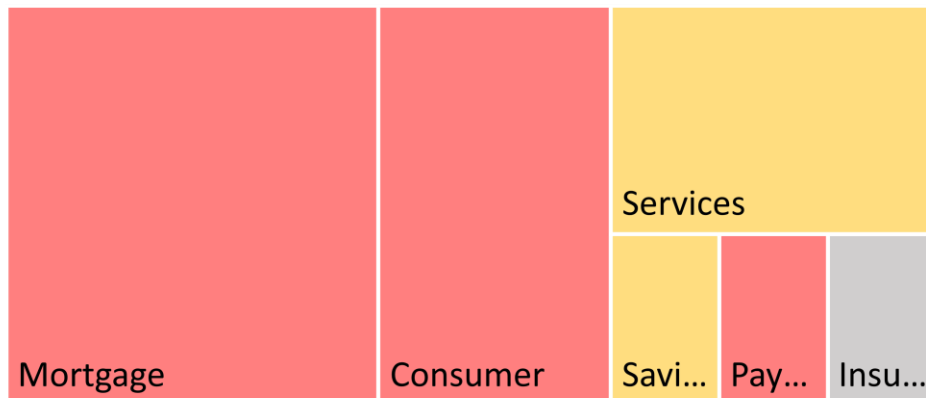
Private Banking



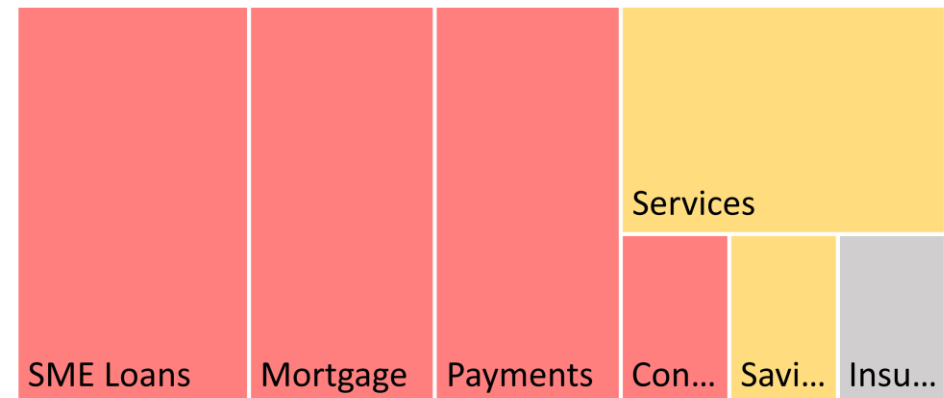
Personal Banking



Mass Affluent



Self Employed



Size of box shows % of exposure to an specific product.

Covid-19 Banking Impact – Individuals Bank Actions



Product Portfolio

- Mortgage
- Consumer
- SME Loans
- Savings
- Payments
- Insurance
- Services

Term Impact View

- S Short Term (1Q)
- M Medium (1Y)

IMPACT

A&M Economic Impact

Private Banking



IMPACT

Personal Banking



IMPACT

Mass Affluent



IMPACT

Self Employed



IMPACT

New Risk Factor

- S
 - Advisory Services
 - Valuation
- M
 - Conduct and MIFID
 - Taxation

- Temporary Layoffs)
- Definitive Layoffs
- Income Reduction
- Advisory Services
- Unemployment
- Taxation

- Temporary Layoffs
- Definitive Layoffs
- Income Reduction
- Liquidity
- Unemployment

- Income Reduction
- Expenses and Cashflow
- Liquidity
- Consumption crunch
- Liquidity Stress
- Restructuring

Risk Mgmt Tools

- S
 - Liquidity enhancers
 - Risk Profile Review
- M
 - Portfolio Restructuring

- Flexible Payments
- Liquidity enhancers
- Risk Profile Review
- Debt Restructuring
- Portfolio Restructuring

- Flexible Payments
- Liquidity enhancers
- Debt Restructuring/Sales

- Flexible Payments
- Liquidity enhancers
- Debt Restructuring/Sales
- Bridge Financing
- Business Restructuring Svcs

Stress Calibration

- S
 - MIFID Risk Review
- M
 - Macro Projection Review

- S-1-2-3 Migration Increase
- Macro Projection Review

- S 1-2-3 Migration Review
- Macro Projection Review

- S 1-2-3 Migration Review
- Macro Projection Review

Covid-19 Banking Impact – Corporate & SMEs Client Needs

Client needs by Segment, Product and Channel

- Focus on short term cash management and refinancing needs
- Limited long term loan origination
- Increased financing needs of public sector
- All banking activity performed using online channels

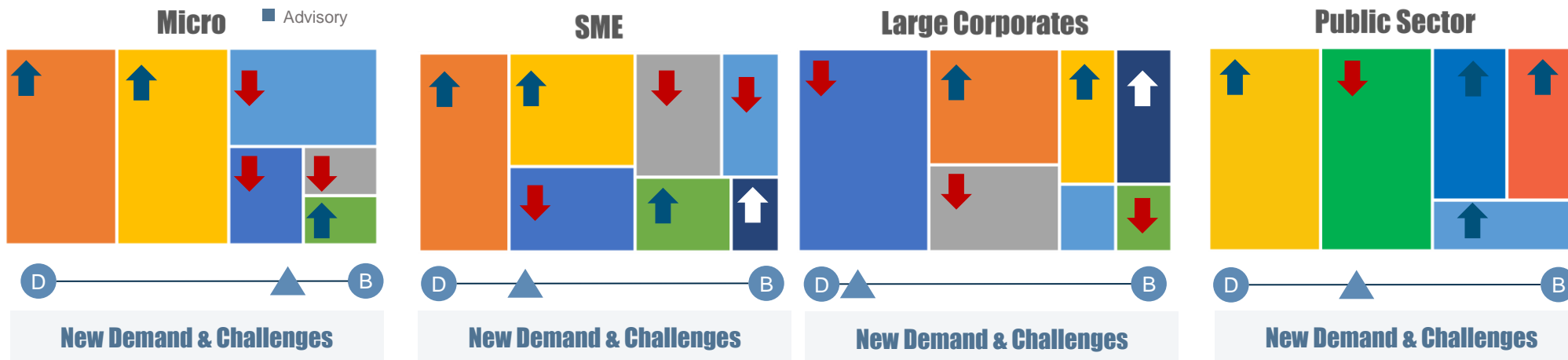
Product Portfolio

- Long Term
- Working Capital
- Comex
- Payments
- Guarantees
- Savings
- Advisory

Channel Client Activity

- Ⓚ Digital
- Ⓚ Branch

- ↑ Product/Service Increase
- ↓ Product/Service Contraction



- ↑ ST Liquidity Lines
- ↑ Working Capital Services
- ↑ Supply Chain Finance Payments
- ↑ Business Opportunities Advice
- ↑ Remote SME Portfolio Management
- ↓ SME Loans NPLs Management
- ↓ Guarantees Monitoring

- ↑ LT Refinancing
- ↑ Working Capital Services
- ↑ Payroll and Supply Chain Services
- ↑ Risk Advisory
- ↑ Bank Branches/ATM Logistical Use
- ↑ Remote Business Meetings
- ↑ Sector & Public Aid Information
- ↓ New Investment Loans
- ↓ Comex Advisory
- ↓ Transaction Services

- ↑ ST Liquidity Planning
- ↑ Syndicated Loan Teams Readiness
- ↑ Bond & Market Activity Advisory
- ↑ Working Capital and Supply Chain Services
- ↑ Employees Banking Services
- ↓ New Investment Loans
- ↓ Comex Advisory

- ↑ Banking Branches and Logistics
- ↑ Health Employees and Public Civil Servants Banking Services and Packages
- ↑ Public Investment to Individuals and SMEs Direct Channeling
- ↑ Tax Services
- ↑ Digital Fraud Control
- ↑ Civil Information Services
- ↑ Client Localization Services

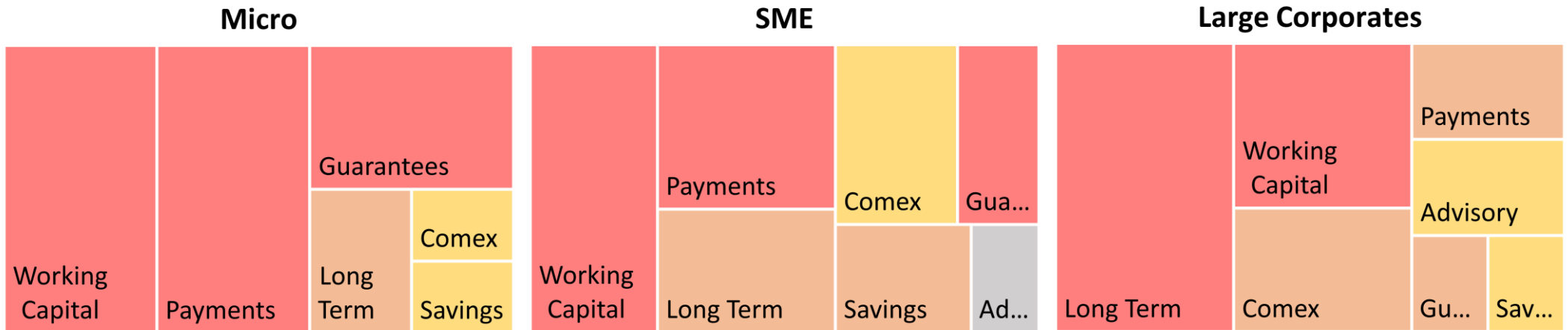
Covid-19 Banking Impact – Corporate & SMEs Risk



Impact by Segment and Product



- High risk sectors include oil & energy, transportation, retail trade, tourism accommodation & food and entertainment
- Expect migration to S2 and S3 across all sectors
- Expected stress in leveraged finance



High/Medium Impact Sectors

- Restaurants
- Leisure
- Small Retail Commerce
- Persona Care
- Education
- Agriculture

High/Medium Impact Sectors

- Tourism
- Automobile suppliers
- Leisure
- Energy suppliers
- Medium Retail Commerce
- RE related
- Education
- Agriculture

High/Medium Impact Sectors

- Oil & Energy
- Transportation
- Leisure
- Insurance

Low / Positive Impact Sectors

- Local logistics
- Pharmacy
- Digital Commerce

Low / Positive Impact Sectors

- Logistics
- Communication
- Healthcare
- Food companies

Low / Positive Impact Sectors

- Telecoms
- Healthcare
- Food companies

Size of box shows % of exposure to an specific product.

Covid-19 Banking Impact – Corporate & SMEs Bank Actions

Product Portfolio

- Long Term
- Comex
- Guarantees
- Working Capital
- Payments
- Savings
- Advisory

Term Impact View

- S** Short Term (1Q)
- M** Medium (1Y)

- RED SECTORS** Short and Medium Term High level Negative Impact
- GREEN SECTORS** Short and Medium Term High level Positive Impact
- IMPACT** A&M Economic Impact

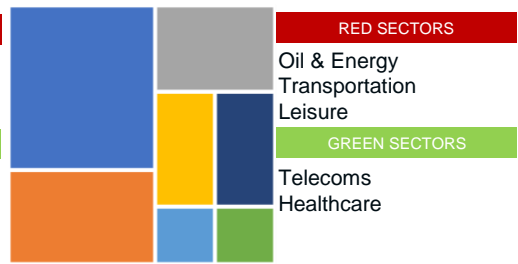
Micro



SME



Large Corporates



Public Sector



New Risk Factor

- S**
 - Revenues & Costs
 - Liquidity
- M**
 - Consumption crunch
 - Liquidity Stress
 - Restructuring

Risk Mgmt Tools

- S**
 - Flexible Payments
 - Liquidity enhancers
- M**
 - Debt Restructuring/Sales

Stress Calibration

- S**
 - S1-2-3 Migration Increase
- M**
 - Macro Projection Review

- IMPACT**
 - Revenues & Costs
 - Liquidity
- IMPACT**
 - Consumption crunch
 - Liquidity Stress
 - Restructuring
- Flexible Payments
 - Liquidity enhancers
- Debt Restructuring/Sales
 - Bridge Financing
- Rating Review by Sector
- Macro Projection Review

- IMPACT**
 - Revenues & Costs
 - Liquidity
- IMPACT**
 - Consumption crunch
 - Liquidity Stress
 - Restructuring
 - Investor Activism
- Flexible Payments
 - Liquidity enhancers
- Debt Restructuring/Sales
 - Bridge Financing
 - Business Restructuring Svcs
- Rating Review by Sector
- Macro Projection Review

- IMPACT**
 - Liquidity
 - Tax Bridge Financing
 - Pension Bridge Payments
- Debt Rollover
 - Government Risk
 - Public Guarantees
- Risk Limits
 - Guarantees Review
- Debt Restructuring/Sales
- Risk Limits
 - Guarantees Review
- Macro Projection Review



Section **3** |

Preliminary A&M Risk Estimates

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A&M First Estimates - High Risk Covid-19 Exposures Spain (1 of 4)

- We have identified €321bn of loan exposures at Risk which represents 28% of Spanish bank balance sheets
- The majority of the exposure at risk (79% of total or €252bn) comes from Corporate and SMEs
- On the retail side we have identified €52bn in mortgages at risk and €12bn in consumer loans at risk

Covid19 Scenario Assumptions				
		High Risk	Med Risk	Low Risk
Mortgages		DSTI>50%	DSTI>30%	DSTI<30%
Consumer		<1Y	1-5 Y	>5 Y
Self Employed		<1Y	1-5 Y	>5 Y
Corporations				
ST		Sector High Risk	Sector Mid Risk	Sector Low Risk
Syndicated		Sector High Risk	Sector Mid Risk	Sector Low Risk
LT SME		Sector High Risk	Sector Mid Risk	Sector Low Risk
Volumes Spain				
Dec 2019 Data	Bn	High Risk	Med Risk	Low Risk
Mortgages	515	52	129	335
Consumer	71	12	17	42
Self Employed	36	6	9	21
Corporations	517	252	228	38
ST	97	47	43	7
Long Term	420	204	185	31
Syndicated	71	35	31	5
SME	349	170	153	25
TOTAL	1139	321	383	436
%		28%	34%	38%

Source: Bank of Spain Financial Stability 1S 2019 Report and EBA Transparency Exercise

A&M First Estimates - High Risk Covid-19 Exposures Spain (2 of 4)

- €252bn or 49% of the corporate and SME loan book is identified at risk
- This estimate is **highly conservative** due to the lack of granular publicly available sector based exposure numbers

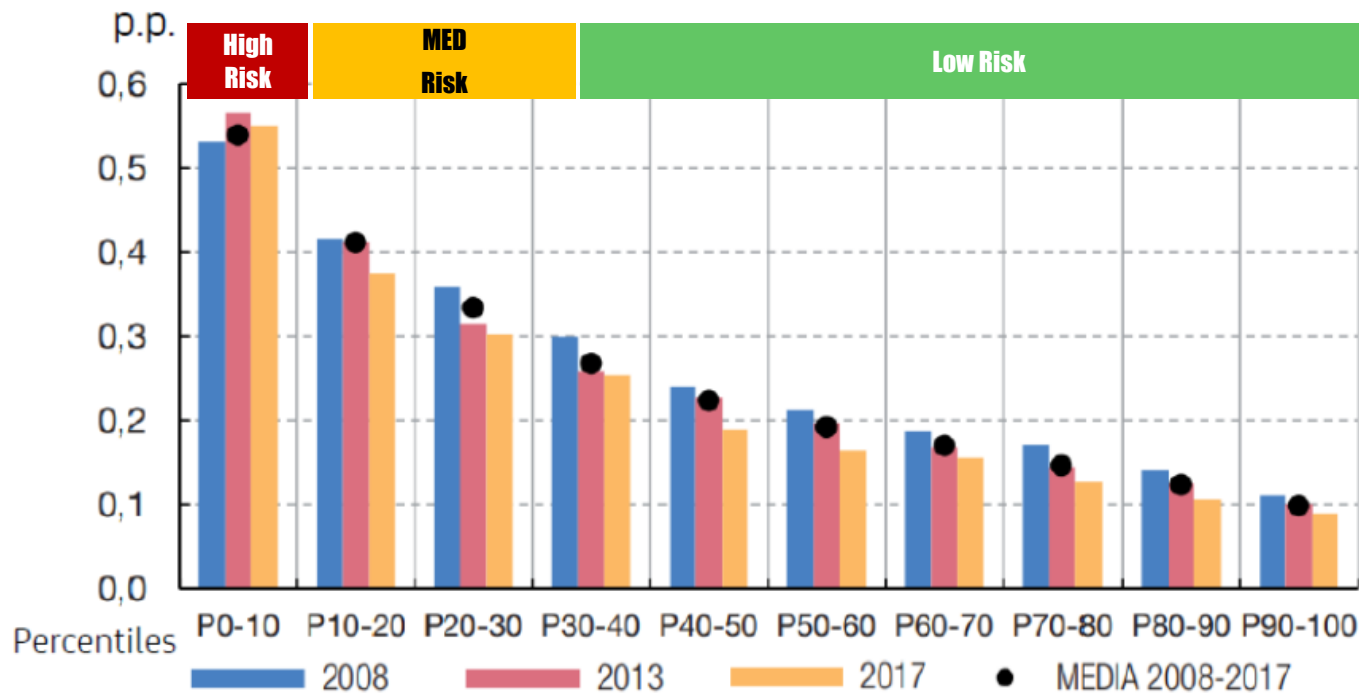
Volumes Spain. Corporate Loans A&M Risk Analysis				High Risk	Med Risk	Low Risk
			Bn			
Agriculture and Fishing			21		21	
Industrial	Extraction & Mining		2		2	
	Manufacturing	Food & Beverage	23			23
		Oil Refinery	2	2		
		Chemicals	5		5	
		Minerals	4		4	
		Steel	20		20	
		Transport Materials	6	6		
	Oil, Gas, Electricity and Water		28	28		
Construction			28		28	
Services	Wholesale and Retail Trade		74	74		
	Accommodation and Food Services		27	27		
	Transportation and Storage		31	31		
	Financial activities and Insurance		63		63	
	Real Estate Services		84		84	
	Arts, Entertainment and Recreation		84	84		
	Public Services					
	Information and Communication		15			15
TOTAL				252	228	38
				49%	44%	7%

Source: Bank of Spain and A&M Analysis

A&M First Estimates - High Risk Covid-19 Exposures Spain (3 of 4)

- We have identified 52bn in mortgages at risk using the following assumptions

Debt Service to Income Ratios Spanish Families



A&M Top Down Approach

- 10% of Families according to BoE data have 55% DSTI levels and are considered High Risk
- 25% of Families have >30-55% DSTI levels and are considered Medium Risk

Fuente: INE y Banco de España

A&M First Estimates - High Risk Covid-19 Exposures Spain (4 of 4)

- Below we distribute exposures at risk to individual banks using market share proxies
- These estimates by bank are approximate and are working on analyzing bank specific disclosures by bank and sector

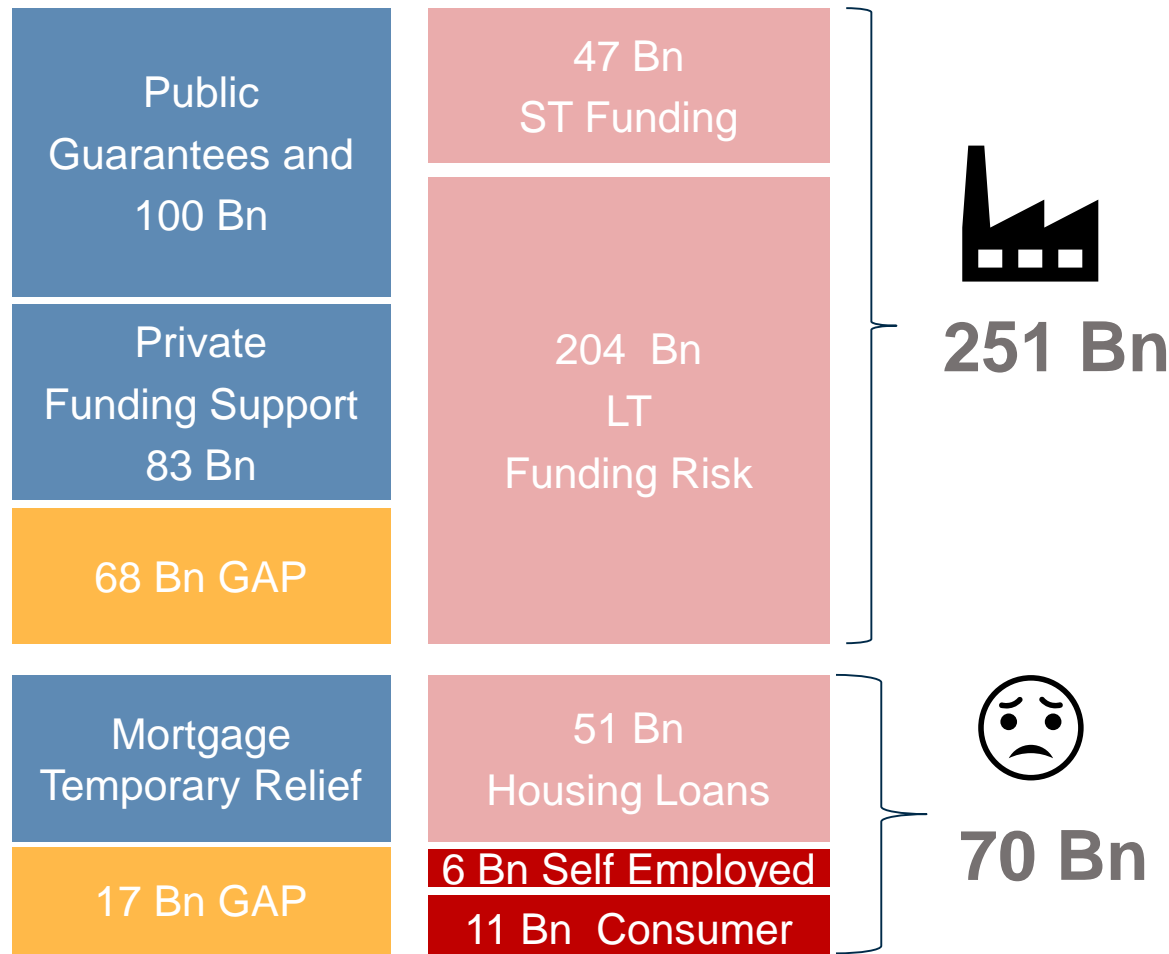
SPANISH POTENTIAL LEVEL OF LOANS AT RISK BY BANK

2019 Mkt Share (%)	Mortgages Mkt Share	Consumer Mkt Share	Self Empld Mkt Share	Total Corp Mkt Share	SME Mkt Share	Mortgages High Risk	Consumer High Risk	Self Employed High Risk	Total Corp High Risk	ow/SME High Risk	TOTAL Exp High Risk
Santander Spain	16%	21%	20%	22%	18%	8	2	1	56	31	68
CaixaBank	20%	18%	16%	15%	14%	10	2	1	37	23	50
BBVA Spain	16%	18%	17%	9%	15%	8	2	1	23	26	34
Sabadell Spain	8%	4%	10%	10%	15%	4	1	1	26	26	31
Bankia	13%	7%	9%	7%	11%	7	1	1	18	18	26
Bankinter	5%	4%	7%	5%	10%	2	0	0	12	17	16
Unicaja	3%	4%	3%	1%	2%	2	0	0	3	3	5
Kutxabank	5%	4%	3%	1%	2%	3	0	0	4	3	7
Abanca	2%	2%	3%	2%	4%	1	0	0	6	6	7
Ibercaja	4%	2%	3%	1%	4%	2	0	0	4	6	6
Liberbank	3%	1%	2%	1%	3%	1	0	0	3	4	4
BCC	3%	2%	4%	2%	5%	1	0	0	5	9	7
Foreign Banks	3%	13%	11%	22%	9%	2	2	1	56	16	60
Total	100%	100%	100%	100%	100%	52	12	6	252	170	321

Source: Bank Market Shares based on Bank 201 quarterly Analyst Presentations and Data Transparency Exercise in EBA (some global banks are estimated based on Pillar III Exposures Report)

A&M First Estimates – Compensating for Government Support

IMPACT OF GOV PACKAGE VS LOANS AT RISK



Government Package covers Most of the High Risk A&M Impact Scenario. However,

- Public Guarantees ST / LT Distributions are relevant
- 83 Bn Private Funding Support needs to be secured and detailed.
- Mid Term Solution for Mortgage Relief is needed
- 68 Bn Gap in Corporates (35 Bn of Leverage Finance @ Risk) could be exposed
- 17 Bn in consumer Loans and Self Employed could have largest impact

Source: Spanish Government Real Decreto March 17th and A&M Spain Analysis



Section **4** |

Bank CRO and CFO Response

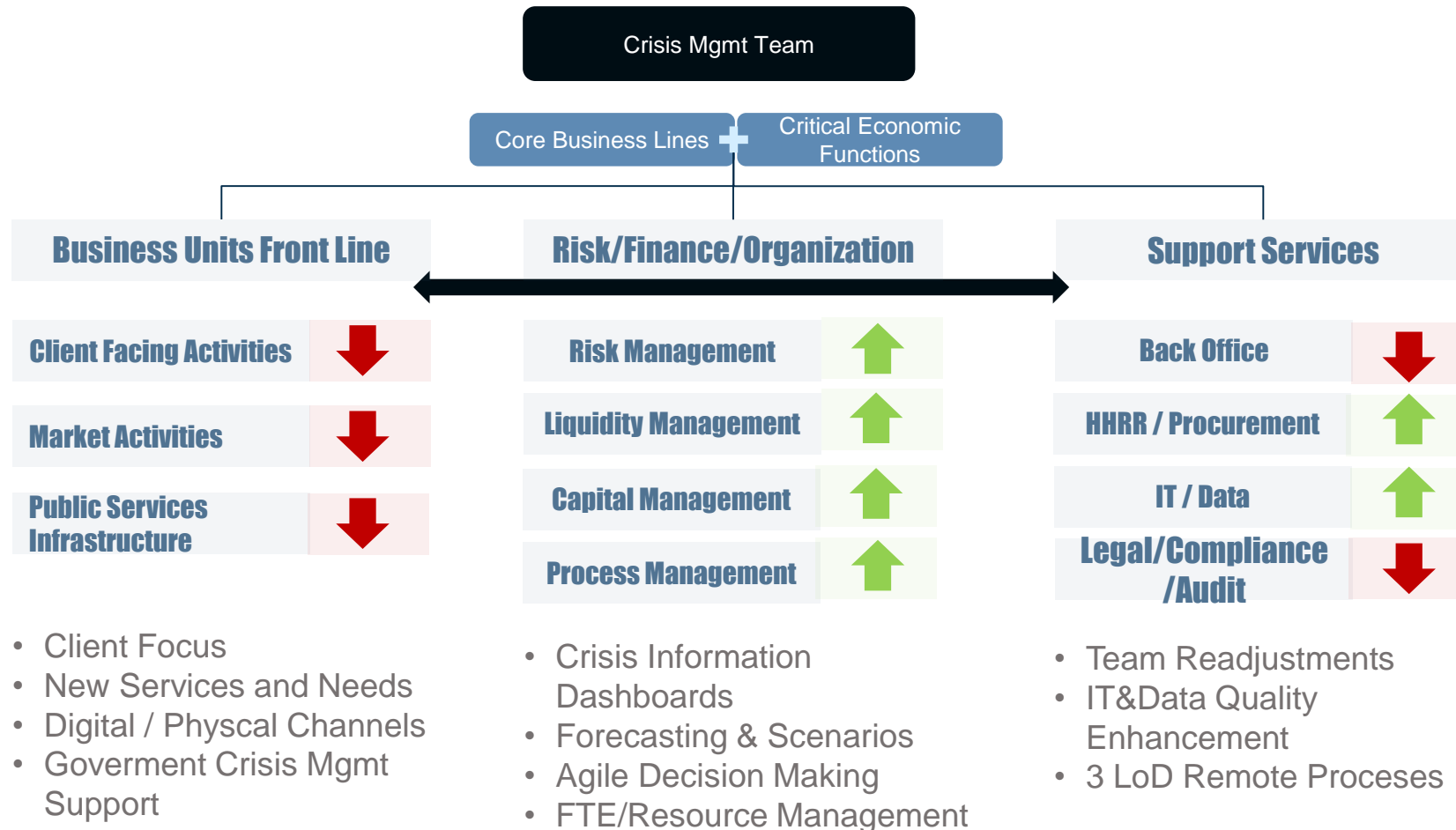
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All banks have launched Crisis Contingency Teams to manage the Covid-19 Crisis.

Bank Organization For Crisis Steering



What can CROs and CFOs do to respond to Covid-19?

Bank Response

We have identified three areas for strategic response actions for bank CROs and CFOs.

01



Client Management

- Develop proactive client management strategies across all segments clustering clients in at risk, no impact and opportunity

- Understanding Clients Problems
- Providing Financial Solutions that Leverage on Banking Capabilities
- Reputational Opportunity & Risks

02



Financial Planning & Risk Management

- Reforecast 2020 and adjust scenarios, capital and liquidity plans
- Credit risk impact analysis and client risk clustering for actions

- Business Planning
- Capital Planning
- Liquidity & Funding Planning
- Risk management with a focus on credit risk management and IFRS9 impact analysis

03



Stakeholder Management

- Communicate to investors impacts and scenario analysis results
- Work with governments / regulators to manage short term impacts

- Banking Role in Critical Services
- Collaboration and Coordination with Government
- Markets Long Term View



Bank Response – Client Management

1.1

Understanding Clients Problems

- Map changing client needs by Segment, Product and Channel
- Cluster clients in at risk, no impact and opportunity

1.2

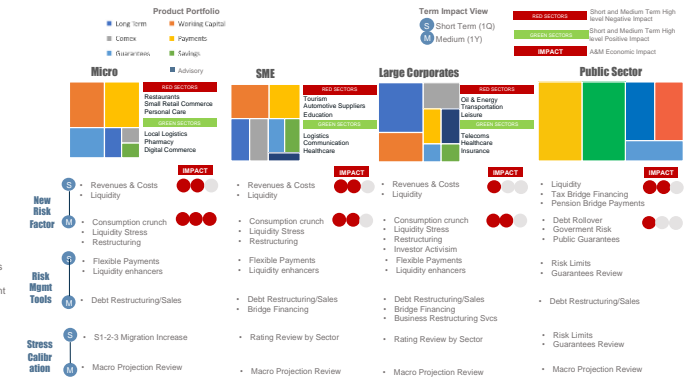
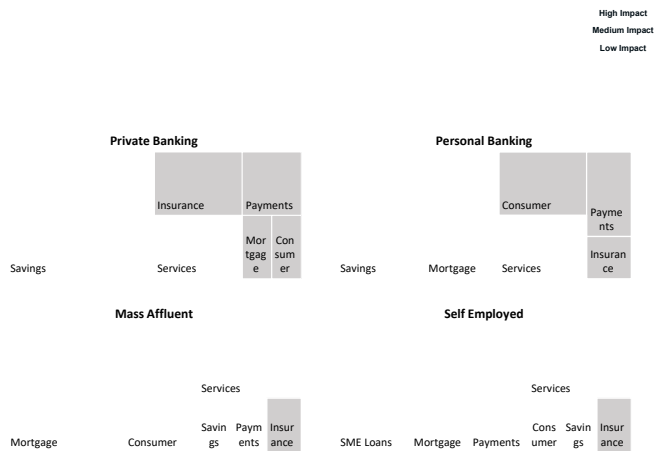
Providing Financial Solutions that Leverage on Banking Capabilities

- Adjust commercial strategies based on changing needs
- Manage and optimize distribution channels - Branch / Digital FTE Remote Resource Planning
- Product services & process Innovation

1.3

Reputational Opportunity & Risks

- Manage reputational risk of new commercial strategies
- Search for support strategies to vulnerable clients
- Maximize state support
- Calibrate actions as scenario evolves





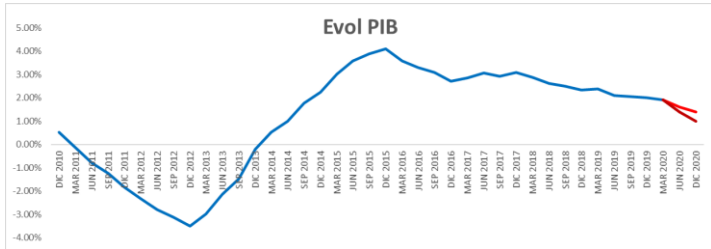
Bank Response – Financial Planning & Risk Management

2.1	2.2	2.3	2.4
Business Planning	Capital Planning	Liquidity / Funding Planning	Risk Management
<p>2020 Budget / 3 Year Planning Review</p> <ul style="list-style-type: none"> • Short Term Client Focused Strategies • Sensitivity Analysis to Key Assumptions <p>Income and Costs</p> <ul style="list-style-type: none"> • New Origination Refocus • Pricing Strategies Review • Digital/Physical Redeployment 	<p>ICAAP Process Planning Redesign</p> <ul style="list-style-type: none"> • Base Case Dynamic Evolution • Warnings / Limits Recalibration <p>Stress Testing Internal and Market</p> <ul style="list-style-type: none"> • Scenario Covid-19 and Idiosyncratic <p>Contingency Planning Readiness</p> <ul style="list-style-type: none"> • Recalibrate measures <p>ECB Measures Impact</p> <ul style="list-style-type: none"> • P2R, Contracyclical, CCB • LCR • NPL Backstop 	<p>New monetary policy measures</p> <ul style="list-style-type: none"> • LTROs: more liquidity available • Purchase programs: ↓ rates <p>ILAAP</p> <ul style="list-style-type: none"> • New interest rates scenario • Potential LCR below 100% • LiST lessons learnt: survival period <p>Contingency and recovery plan</p> <ul style="list-style-type: none"> • Dry-run, testing and challenge • Update measures and scenarios • Deposit run contingency preparation • Information and communication strategy 	<p>Credit Risk</p> <ul style="list-style-type: none"> • Provisions increase – IFRS9 impact • Refinancing / Restructuring • Payment extension options (mortgages) • SMEs support / lines of credit <p>Operational Risk</p> <ul style="list-style-type: none"> • Cyber • Data <p>Market Risk</p> <ul style="list-style-type: none"> • Markets volatility • Sovereign debt spreads



Bank Response – A Focus on Credit Risk Management

1 TOP DOWN MACRO IMPACT



Short: PIB -0,5% - Unemp +1%
 Medium: PIB -1% - Unemp +2% → P&L impact

2 GRANULAR PORTFOLIO IMPACT

Portfolio clusters

- Customer
- Industry/Size
- Product

Short & Medium Impact

SME

Working Capital	Payments	Comex	Gua...
	Long Term	Savings	Ad...

High/Medium Impact Sectors

- Tourism
- Automobile suppliers
- Leisure
- Energy suppliers
- Medium Retail Commerce
- RE related
- Education
- Agriculture

Low / Positive Impact Sectors

- Logistics
- Communication
- Healthcase
- Food companies

Risk Drivers

- ▲ Staging
- ▼ Rating
- ◆ KRIs

→ IFRS9 EL

3 BOTTOM UP SMEs / CORPORATES ASSESSMENT

Customer information

- KRIs: Turnover TDER, DSCR, ICR, D/E
- Debt : Short/Long Term
- Short Term obligations

ST: Liquidity assessment tool
 MT: Solvency assessment tool



Customer impact





Bank Response – A Focus on Credit Risk Management

- Scenario analysis need to be updated to accommodate different crisis expected scenarios, and IFRS9-related models to be re-run with updated SICR.
- Provisions will dramatically increase due to higher S2/S3 and worsen PD/LGD estimates, pending of possible regulatory adjustments

1 Scenario Macro Update

	Mortg.	Consum.	Self-Employed	SMEs	Mid Corps	Large Corps
Scenario #1: V Shape	10%					
Scenario #2: U Shape	90%					
Scenario #3: L Shape	10%					

Scenario #1:
V Shape

Scenario #2:
U Shape

Scenario #3:
L Shape

2 SICR Review

- 30-90 dpd
- PD increase
- Rating downgrade
- Forborne exposures
- Continued losses or delays in payments
- Imbalanced financial situation
- ...

A&M – Ideas for CROs / CFOs

Transitions increase

	S1	S2	S3
Mortgages			
Consumer			
Self-Empl.			
SMEs			
Mid-Corps			
Large-Corps			

Parameters increase

	PD12	PDLT	LGD
Mortgages			
Consumer			
Self-Empl.			
SMEs			
Mid-Corps			
Large-Corps			



3

Provisions increase

Provisions (€m)	S1 - Post-COV19	S2 - Post-COV19	S3 - Post-COV19	Total - Post-COV19	Total - Pre-COV19
Mortgages	143 €	453 €	1,392 €	1,988 €	1,246 €
Consumer	5 €	80 €	338 €	423 €	183 €
Self-Employed	78 €	185 €	613 €	876 €	465 €
SMEs	49 €	262 €	932 €	1,243 €	764 €
Mid-Corp	248 €	528 €	1,811 €	2,587 €	2,034 €
Large Corp.	675 €	997 €	3,104 €	4,776 €	3,454 €
TOTAL	1,189 €	2,379 €	8,325 €	11,893 €	8,146 €



Bank Response – Stakeholder Management

3.1

Banking Role in Critical Services

- Industries Client Plans
- Banking industry initiatives
- Public support initiatives

3.2

Collaboration and Coordination with Government

- Work with governments / regulators to manage short term impacts

3.3

Markets Long Term View

- Shareholders and Investor Strategy
- Communicate to investors impacts and scenario analysis results

Stakeholders

Customers

Government

Investors & Markets



Section **5** |

How can A&M Help

ALVAREZ & MARSAL



ALVAREZ & MARSAL

How can A&M Help to Bank CROs and CFOs with Covid-19 Crisis

A&M can assist with interim leadership and support

Bank

Program Leadership
CRO & CFO

ALVAREZ & MARSAL

Crisis Response Team

Crisis Interim Management Office

- Interim and neutral position to assist in crisis
- Provides challenge and market perspective
- Promotes change management, prioritization of gaps and corrective actions
- Facilitates consensus and internal incentives
- Fosters alignment with regulatory expectations

Roles

Planning

PMO & Communication

Analysis and Challenge

Covid-19 Crisis Management Response

I

Business Planning

- Client Focused Short Term Measures
- Dynamic Budgeting - Quarterly Targets
- Fast moving Decision Drivers Indicators Dashboards Data Quality and Analysis.

II

Risk Management

- Impact analysis, by segment, geography and risk type
- Provisions / capital impact analysis
- Review of strategies: increased lines of credits, loosen clauses, extensions
- Mitigation plans including government aids

III

Liquidity Planning / Strategy

- Review strategy and appetite for liquidity
- Review liquidity scenario, thresholds & measures within ILAAP, contingency and recovery. What if analysis
- Dry run, testing and challenge of plans
- Enhanced communication strategy

IV

Capital Planning

- Multi-Scenario Impact Stress Testing Tools
- Challenge and Calibration and of Contingency Plans.
- Benchmarking Tools for Internal and Market Oriented Presentations.
- Regulatory Impact advisory

“The information contained in this document is of a general nature and has been obtained from publicly available information plus market insights. The information is not intended to address the specific circumstances of an individual or institution. There is no guarantee that the information is accurate at the date received by the recipient or that it will be accurate in the future. All parties should seek appropriate professional advice to analyze their particular situation before acting on any of the information contained herein.”

Alvarez & Marsal

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