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Regulatory Framework Under COVID

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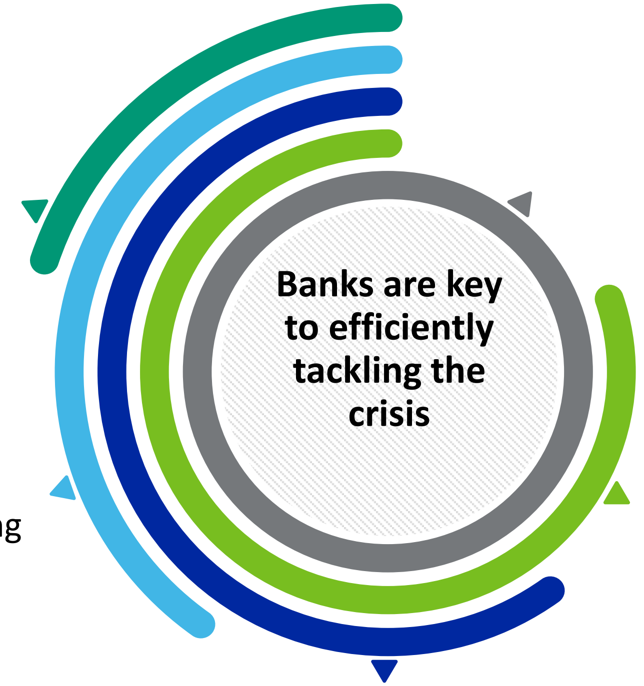
Engagement
Meaningful interactions across multiple channels between our analysts and market participants.

Disciplined crisis management…So far

"Banks are the solution" rather than the problem as in 2008

Official sector put together a series of measures to help banks support the real economy



Flexibility embedded in regulation is being used

Will this thoughtful stance last going forward ?

Rules/regulations are not suspended (no forbearance strictly speaking)

Regulation/Supervision (I)

- Capital buffer (capital conservation buffer) *ECB/SSM*
- SSM provided long term economic scenarios
- LCR can fall below 100% *ECB/SSM*
- The ECB/SSM postponed on- site examinations

Regulation/Supervision (II)

BCBS delayed implementation of Basel 3/4

EBA postponed stress test to 2021

Countercyclical/ systemic risk buffers removed in most *EU countries*

ECB, EBA, IEOPA urged banks & insurance companies to suspend dividends and postpone shares buy back

Review of Solvency 2 is postponed

SRB adjusted its expectations

Current motto is “Using Flexibility”

Some banks will strive to not use the regulatory “flexibility”

Other banks won’t have that choice

Risk of market stigma

MDA involves coupon suspension.

Yet SSM has no plan to order it (A. Enria)

Supervisors seek to avoid undue stress

Supervisors urge banks to consider a beyond-the-crisis approach.

Authorities will seek to avoid economic crisis becoming a financial crisis

Risk of supervisory intervention has somewhat receded

Resolution along with a bail-in appears unlikely at the moment

Accounting standard – IFRS 9

IFRS 9

- Close coordination between EBA, SSM, ESMA, BOE, IOSCO
- IFRS 9 is a “principles-based” standard
- Banks are required to use their judgment in slotting loans in Stage 1, Stage 2, Stage 3
- A moratorium does not necessarily trigger NPL status
- Banks are expected to factor in government measures in estimating losses

State Aid Framework has not been amended

Current State aid is compatible with the EU Treaty

(Pursuant to Article 107(3)(b) TFEU the Commission may declare compatible with the internal market **aid to remedy a serious disturbance in the economy of a Member State**

Aid granted by Member States to banks under Article 107(2)(b) TFEU to compensate for direct damage suffered as a result of the COVID-19 outbreak **does not have the objective to preserve or restore the viability, liquidity or solvency of an institution or entity**. As a result, such aid would not be qualified as extraordinary public financial support

Burden-sharing would be more limited than under normal circumstances

In order to ensure access to liquidity to undertakings facing a sudden shortage, **public guarantees on loans for a limited period and loan amount can be an appropriate**, necessary and targeted solution during the current circumstances

The Commission will consider such State aid…compatible with the internal market on the basis of Article 107(3)(b) TFEU

To the extent such measures address problems linked to the COVID-19 outbreak, they would be deemed to fall under point 45 of the 2013 Banking Communication, which sets out an **exception to the requirement of burden-sharing by shareholders and subordinated creditors hence subordinated debt is protected**

CRR2 “Quick Fix”

Endorsement of measures/guidance recently taken/issued by the **likes of ECB, EBA, etc**

Amendment of prudential treatment of IFRS 9, prudential filter on FVOCI government securities, etc.

Early enforcement of numerous measures of CRR2 (e.g. SME factor)

Objective is to protect banks’ CET1

Supervisors may be forced to take further action

Economic conditions could deteriorate further and spillover into a prolonged recession

Banks with non viable business models could be intervened/forced to merge/etc

Forbearance could be extended (more leeway re. capital requirements for example)

Covid-crisis could give "bad bank" scenario added appeal (SSM could push for it) a credit positive for banks potentially

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