



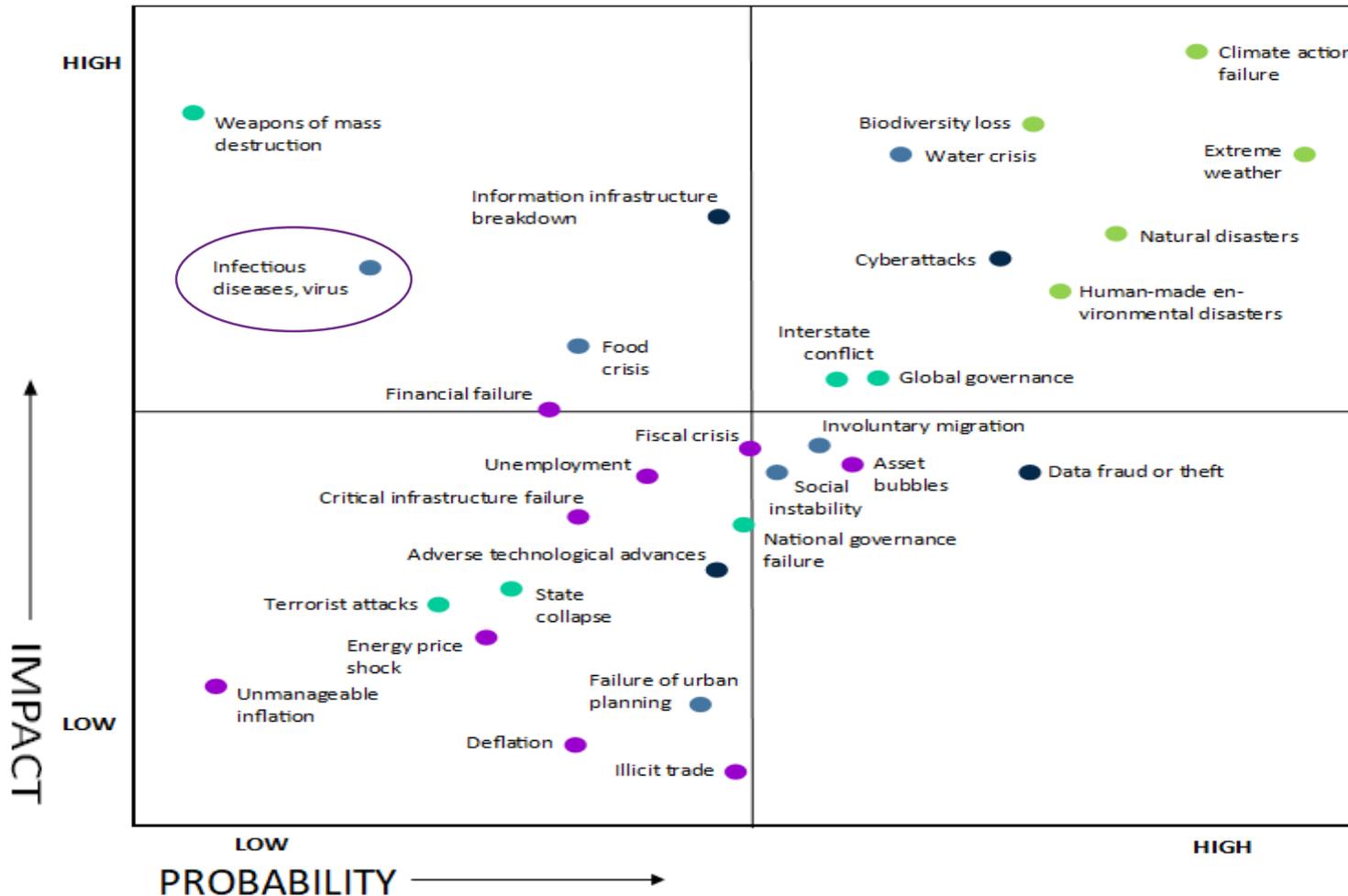
BANQUE
INTERNATIONALE
À LUXEMBOURG

How are banks supporting local businesses during COVID-19?

Beyond the abyss of COVID-19

Unprecedented event

...an exogenous (black swan) shock

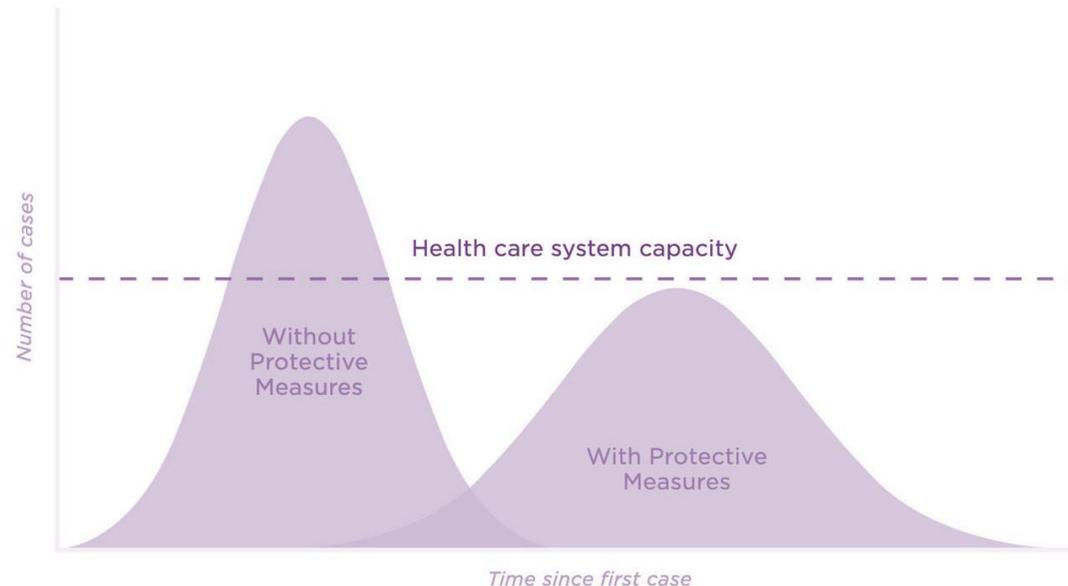


- Environmental
- Geopolitical
- Societal
- Economic
- Technological

Unprecedented measures

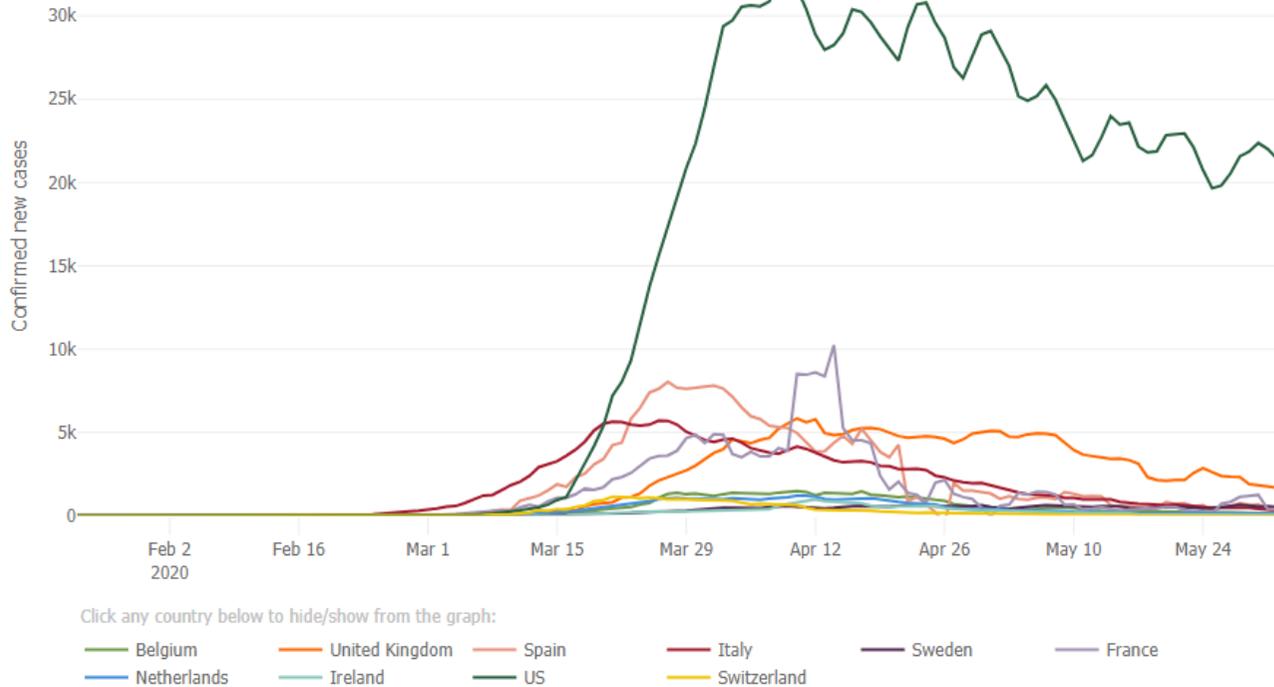
...flattening the curve

- The decision by several national governments to impose quarantines and close businesses is viewed by some as extreme.
- However, social distancing is essential in order to slow the spread of the virus, thereby reducing the burden on the health care system.
- Keeping more than one-third of the world's population under some kind of movement restriction will cause **acute economic pain**.



Unprecedented measures

...flattening the curve



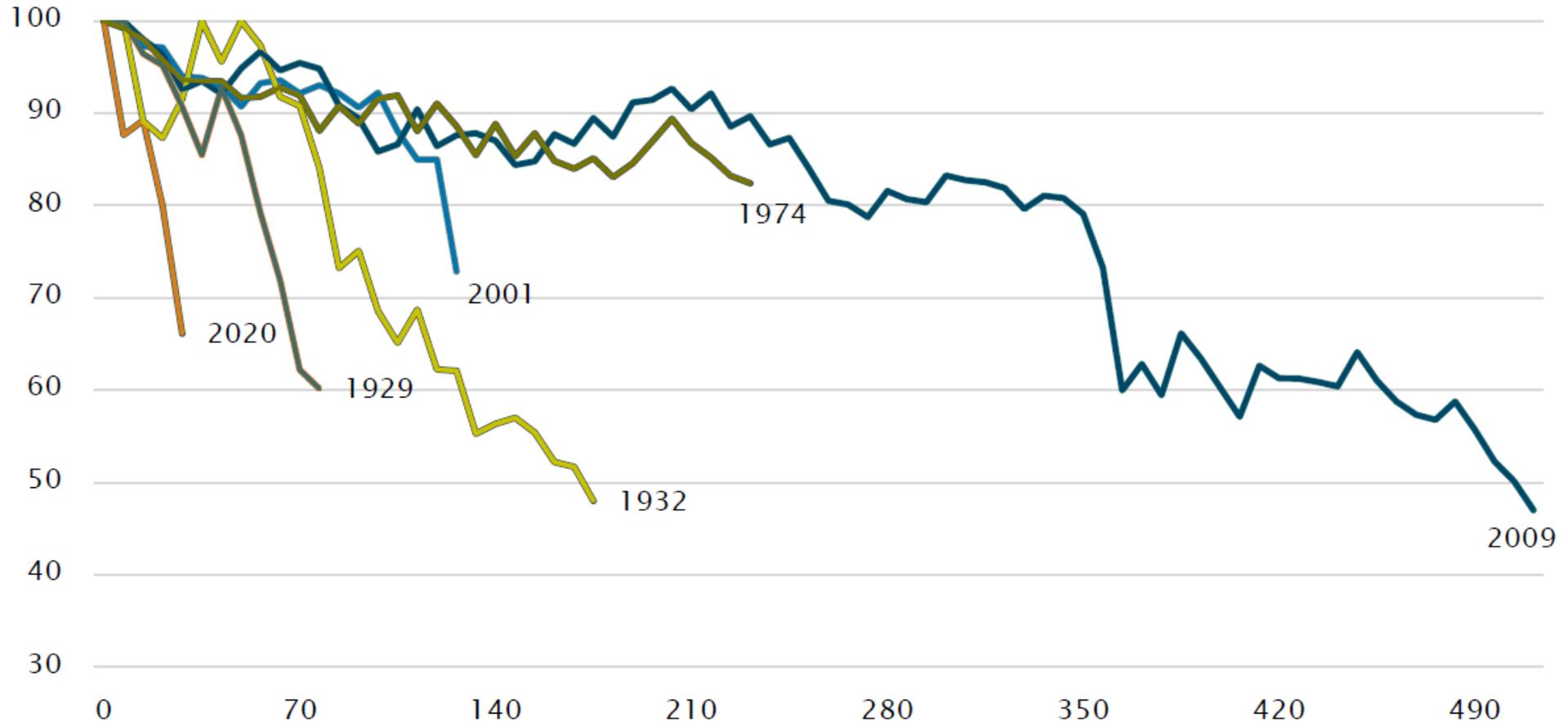
Catch 22 dilemma:

The longer the confinement, the slower the economic recovery.

The faster the de-confinement, the riskier the recovery.

Unprecedented financial markets crash

...the fastest bear market ever seen

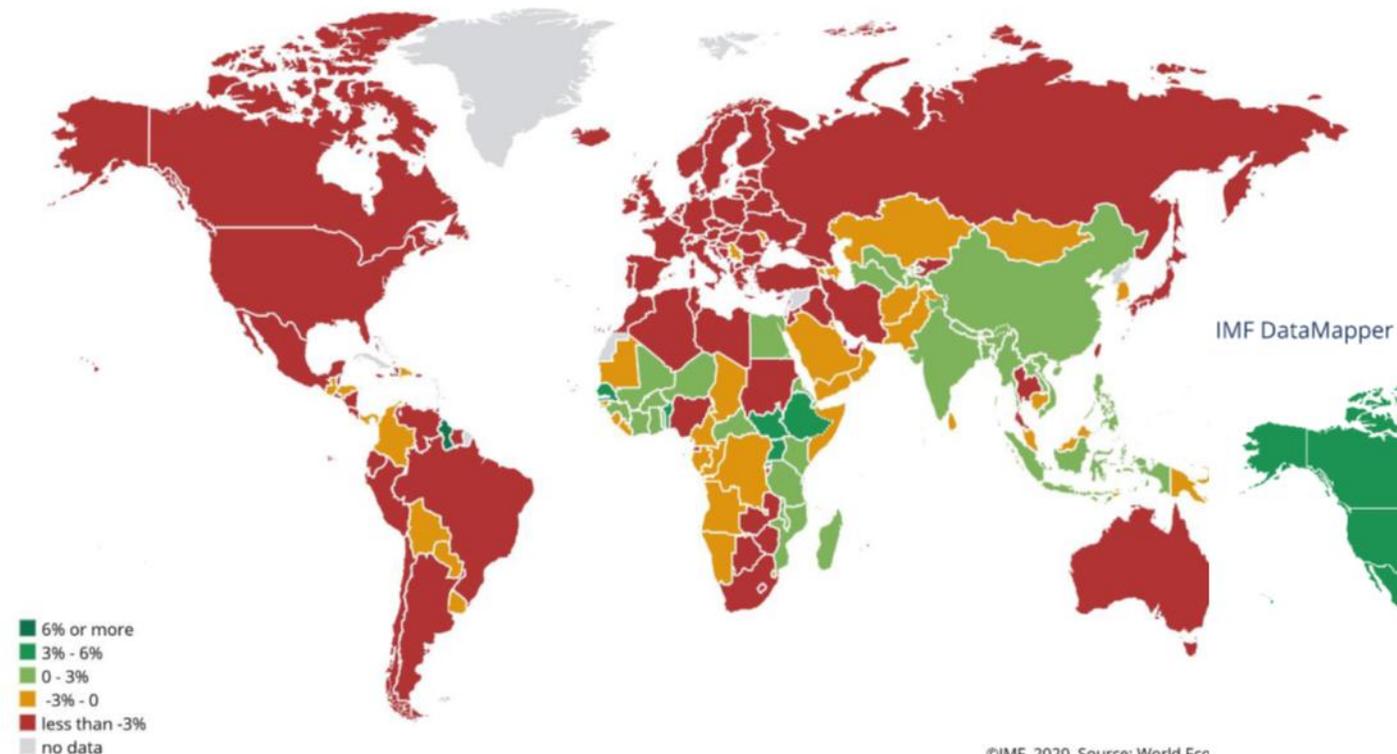


Unprecedented economic consequences

...at a global scale

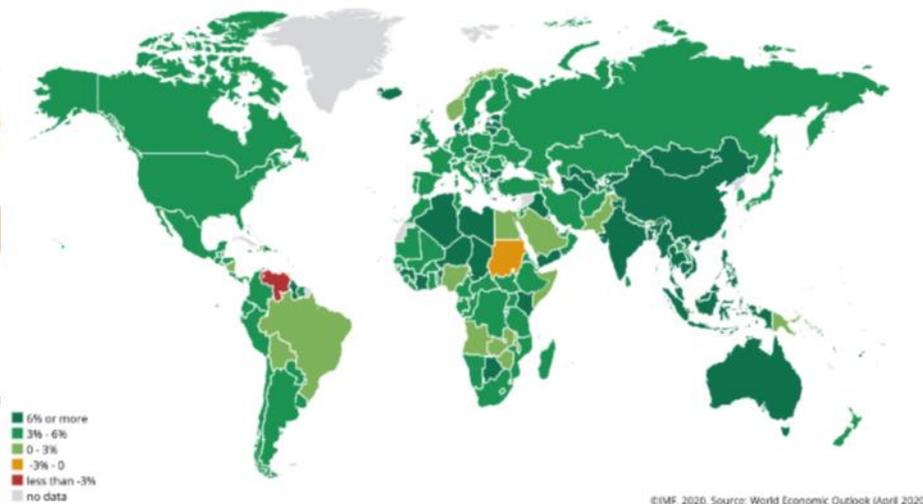
IMF DataMapper

Real GDP growth (Annual percent change, 2020)



IMF DataMapper

Real GDP growth (Annual percent change, 2021)



Unprecedented times

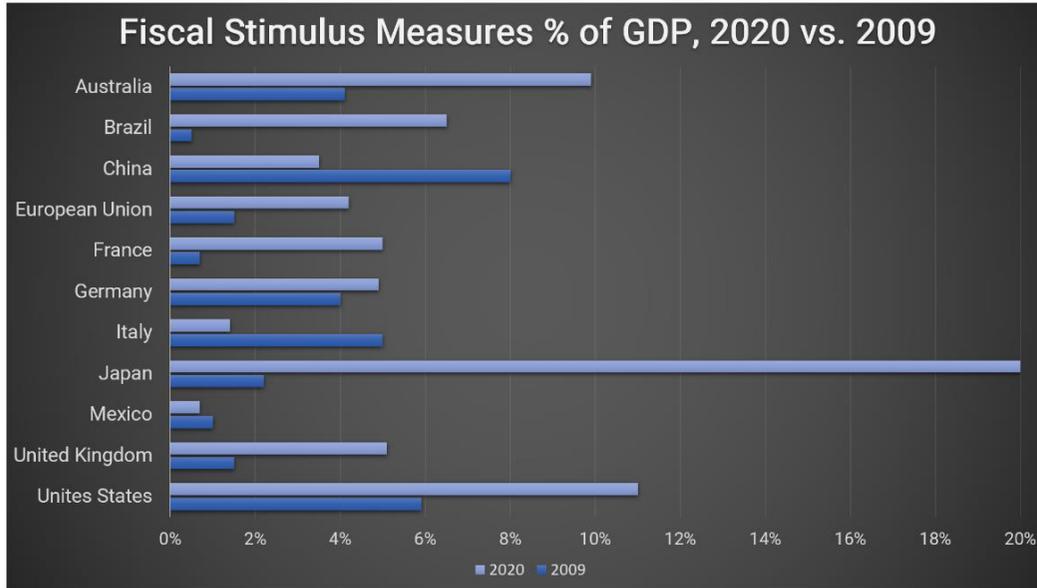
...luckily with a good starting base



- Prior to the coronavirus, economies around the world were strong or recovering.
- Should the corona crisis have hit economies while countries were in a weaker shape, with public policies already stretched, then it is very probable that economic prospects would have been much bleaker than what they are today.
- Currently we expect a **deep economic shock** spreading from the end of Q1 and dragging into Q2. Thereafter, we should see a **progressive stabilization** starting in Q3 after quarantines start to be lifted.
- Of course the degree of uncertainty around this central view is quite high as it depends on several factors:
 - **Epidemiological** factors –primarily how long the virus will take to peak and whether we can avoid a second wave.
 - Whether fiscal and monetary policies will be able to avert a wave of insolvencies and a spike in **unemployment**. If they do not achieve this, consumers and businesses will not begin spending/investing again once movement limitations are lifted. This would result in a prolonged recession.
- However, our view is skewed to the upside given the **unprecedented fiscal and monetary stimuli** being deployed in unison around the world.

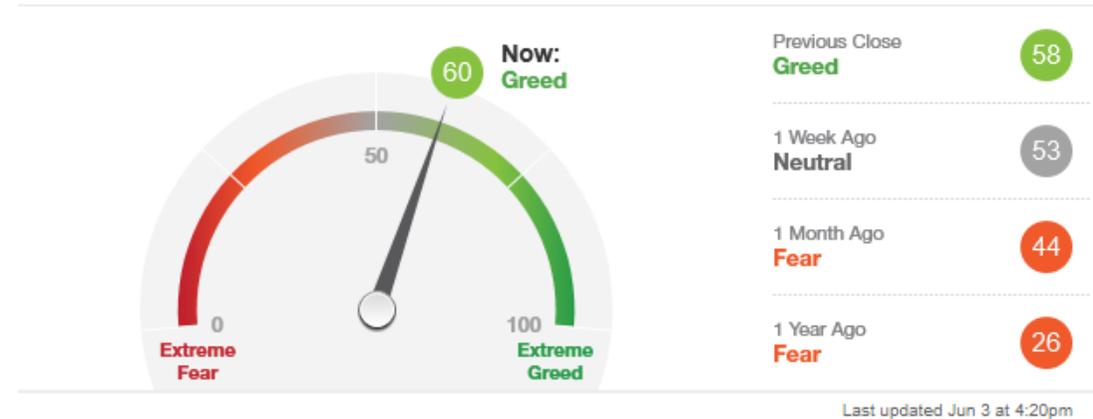
Unprecedented times

...with a realistic optimism lens



Fear & Greed Index

What emotion is driving the market now?



This crisis is catastrophic in many senses but we should remain fairly optimistic about the future.

But not complacent: Not everything is going to be good going forward, there will be winners and losers.

We will need to accept that **There are many overnight tragedies, while there will be no overnight miracle.**

Luxembourg State response and economic recovery measures

In Luxembourg

How to keep the population safe...

- 15 March 2020: Prime Minister Xavier Bettel announces lockdown, effective 16 March.
 - Most activities are stopped except activities qualified as essential, that must continue to serve clients.
- 18 March 2020: BIL inform clients of the protective measures in place to continue to serve them.
 - We remain attentive and accessible to accompany our clients in this exceptional situation.
 - Emphasis is put on digital solutions via BILnet to manage the daily needs.
 - But branches remain open on an appointment base.



Travel only when necessary



Wear a mask



Avoid shaking hands



Wash your hands regularly



Cough or sneeze into your elbow or use a tissue



Avoid close contact with other people (the number of clients in branches is limited)

Luxembourg State launches 4 economic recovery measures:

1

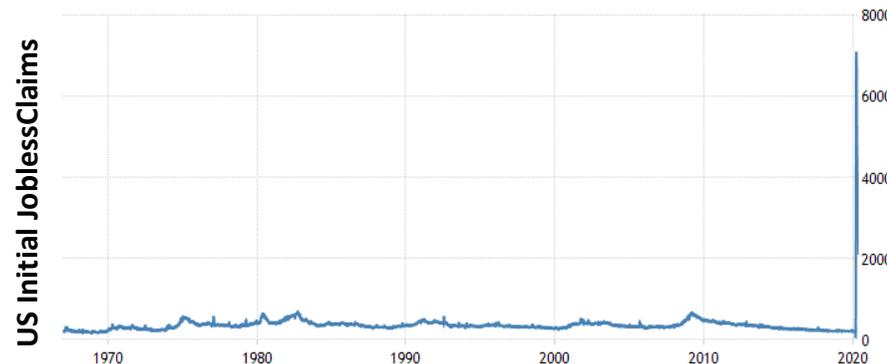
Short-time unemployment due to force majeure:

- State takes over the remuneration of unemployed employees (permanent contracts, fixed-term contracts, apprenticeships) for up to 80% of their usual salary paid by their employer.
- Objective: avoid lay-offs

2

Direct Capital Grant Advance:

- Financial aid of up to €500,000 in the form of a repayable advance to cover operating costs, (0,5% interest rate)
- Objective: cover short-term operating costs



SOURCE: TRADINGECONOMICS.COM | U.S. DEPARTMENT OF LABOR

Weekly initial unemployment claims in 2020

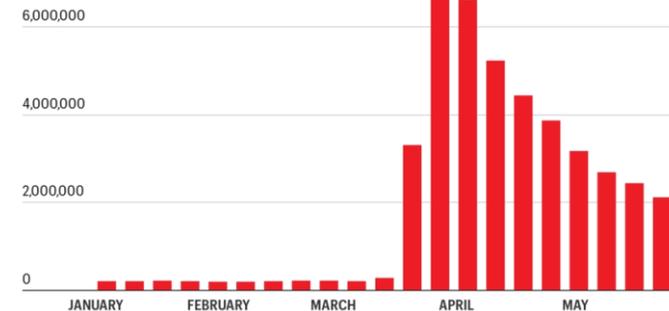


CHART: LANCE LAMBERT - SOURCE: U.S. DEPARTMENT OF LABOR

FORTUNE

3

Non-refundable Financial aid of EUR 5.000,- for **micro-businesses (0-9 FTE)**.

- Objective: support businesses that have been forced to close their establishments on the basis of a Government decision.
- Criteria: Valid business permit, annual turnover of at least EUR 15.000,-

4

Reinforced coverage of the co-financing rate of **young innovative enterprises**:

- The maximum cofounding rate of 50% has been raised to at least 70% for new young innovative enterprise aids granted
 - Objective: support start-ups
 - Criteria: being an unlisted company or private research organization that has not taken over the activity from another business; was registered no more than 5 years ago; has not yet distributed profits; was not formed through a merger;
-
- Additional measures have been announced by Luxembourg State “Neistart Lëtzebuerg”: Encourage employment, support companies in the most affected sectors* and promote sustainable economic recovery

How banks support businesses and the Government's economic stability plan ?

Banks' contribution

...being part of the overall solution



BIL participate in 2 bank led initiatives:



1

LU Moratoria on existing credits and leasing contracts

- Objective: reduce operating costs for a limited time
- Corporates can postpone payments of :
 - Credit: capital and interests moratorium for up to 6 months on existing BIL and/or SNCI loans.
 - Leasing: moratorium on monthly payments to BIL Lease (payments are postponed to end of contract).
- Moratoria can be asked between 18 March until 30 June 2020*.
- Request can be made by non-financial companies, self-employed, agricultural companies and non-profit associations which fulfil each of the following 3 conditions:
 - The company is Luxembourg based,
 - A client of BIL and
 - Has been impacted by the coronavirus crisis, resulting in a fall in turnover or activity, recourse to temporary or full unemployment, total or partial imposed business closure.

* Possible extension being discussed.

2

April 22 onward: new measure announced with 7 local banks and with the support of the State:

- **State-backed guarantee (85%) for new bank credit lines**, for up to a maximum of 6 years, for a total amount of €2.5 billion.
 - Loan can be asked between 18 March until 31 December 2020.
 - Maximum duration: 6 years
 - Maximum amount: 25% of revenues or 2 years of total payroll for young innovative
 - Objective: facilitate access to new cash for sane businesses (prior to the crisis), to help them to overcome the COVID-19 impact, and to support them in the recovery phase.
-
- This loan remains a loan from a bank to a company: it is not a loan from the state.
 - The state guarantee is remunerated according to a scale which depends on the size of the company and the duration of the guaranteed loan.
 - The state guarantee covers a percentage of the amount of capital, interest and accessories. This percentage is set at 85%, the balance of 15% being borne by the credit institution. The amount to be compensated corresponds to the loss recognised.

Banks' contribution

...being part of the overall solution



Additionally Luxembourg banks have various joint initiatives with local partners (1/2):

SNCI (Société Nationale de Crédit et d'Investissement)

▪ **SNCI "Special Anti Crisis Financing - FSAC"**

- This instrument is intended for Luxembourg SMEs and large companies with an establishment authorization in accordance with the law of 2.9.2011 with a view to financing any exceptional need arising in the context of the COVID-19 crisis, this for decisions to financing taken until 12.31.2020.
 - Amount: between €12,500 and €10 million
 - BIL will finance 40% and SNCI 60%
 - The maximum duration of 5 years with an initial grace period of up to 2 years.
- The FSAC constitutes a paradigm shift for SNCI in the sense that it covers short-term financing needs which have arisen in an exceptional way in direct relation to the current crisis.

▪ **SNCI "Special Anti-Crisis SME Guarantee"**

- Provide guarantees for obtaining new working credit lines from banks to cover additional costs due to Covid19 crisis.

Banks' contribution

...being part of the overall solution



Additionally Luxembourg banks have various joint initiatives with local partners (2/2):

▪ **Mutualité de cautionnement et and Mutualité des PME: Guarantee for Credit line**

- Enable the mutual societies of the professional chambers to extend guarantees on loan, credit line or leasing provided to SMEs (Commerce & HORESCA).
- Guarantee covers up to 50% of financing, for a maximum amount of 250.000€

▪ **ODL (Office du Ducroire) : Financing Guarantee**

- Objective: Increase support for companies that export, and reach clients internationally, including to markets affected by the coronavirus.
- Conditions to benefit from credit guarantee are eased.

▪ **European Investment Bank / European Investment Fund: Shield**

- Additional funds of 25 billions euros reserved to support existing credit guarantee measures.

Banks' contribution

...being part of the overall solution

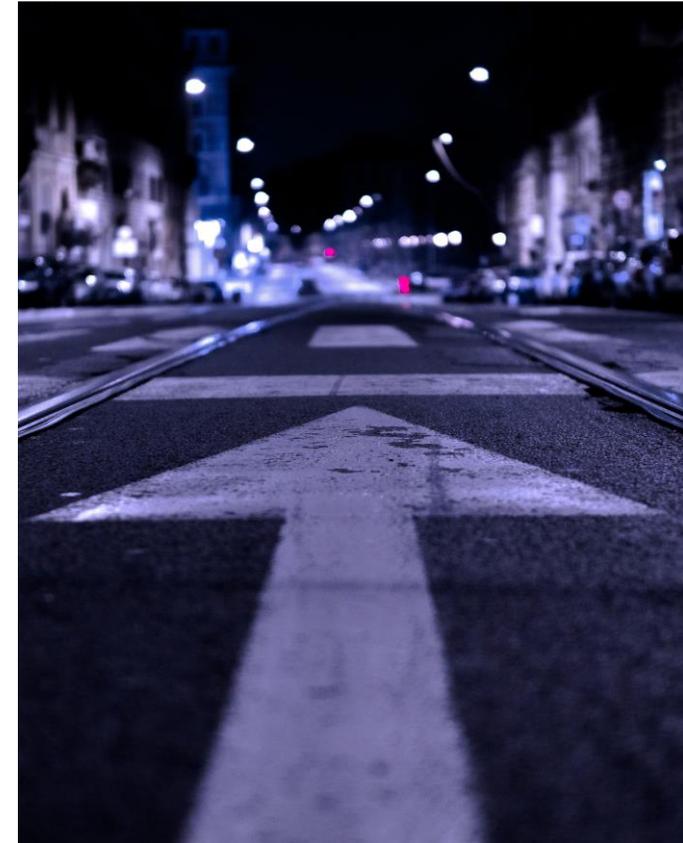
▪ Vulnerable Sectors:

- Sectors that were forced to close and into lockdown, but especially those with high fix costs and/or high immobilized assets.
 - Chemistry, Cement, Automotive, HORECA, Event Management, Tourism, Recreational Services.

▪ Exclusion Criteria :

- Companies must find themselves in temporary financial difficulty following the Covid-19 pandemic, but not before 01/01/2020:
 - =>SME if reserves and results carried over <50% of the capital
 - => Large Company if debt/equity ratio > 7.5 and ICR <1)
- Exclusion of the property development, rental and property trading activity, and SOPARFI.

- **For all excluded companies, BIL and other commercial LU banks can still act as direct lenders, given the stand-alone merit of the credit request.**



Banks' contribution

...being part of the overall solution



■ Closing words:

- Yes the crisis hits hard and on an unprecedented global scale!
- But it is also met with unprecedented measures and support by all stakeholders.

■ Recommendations for Corporates and Professionals in the current context :

- **BE PROACTIVE:** in anticipating problems, stay informed on solutions, discuss often, if necessary seek assistance, do not hesitate and demonstrate that you can help yourself.
- **BE OPEN MINDED:** about the solutions. Consider alternative debt instruments, rethink your capitalization, optimize your financial structure, increase your solvency.
- **BE REALISTIC:** on your figures. Challenge and review your treasury budget, calculate your digestible “cash-burn” rate, stress test your scenarios.
- **BE PREPARED:** Document all the above, facilitate the review of your requests, aim for STP, as banks face many demands they will favor the quality.
- **BE READY:** Shift from an area of efficiency to an area of resilience, maximize your liquidity, cash will remain king.

Q & A

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