Banking Sector Committee (SCB)

Expectations regarding disclosures around the impact of COVID-19 in 2020 interim reports of banks

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Koninklijke Nederlandse Beroepsorganisatie van Accountants

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1. Introduction

Banks have a special place in society and play a critical role in the financial system. These days, they fulfil their social role by informing the general public about money and money matters. However, trust in banks and bankers is still brittle after the credit crunch (source: NVB Trust Monitor).

The COVID-19 crisis shows that banks now assume their social role more promptly and efficiently in crisis situations and quickly offer ample (financial) support to retail and business. Figures from the Dutch Banking Association (NVB) (source: NVB Corona Monitor) show that by the end of June 2020:

- the number of retail customers assisted is nearly 32,000, that 19,000 clients were granted a mortgage holiday and a further 12,000 repayment holiday on (consumer) loans were processed;
- the number of business customers assisted is 152,000, with a total support package of EUR 17 billion provided in the form of capital repayment holidays, new loans and additional credit facilities.

Due to the COVID-19 crisis, the banks are facing higher costs of credit risk management and debt management. For example, costs have increased as more customers have difficulty meeting their payment schedule. Nonetheless, banks want to support their customers, especially now, and be part of the solution rather than be the problem, like they were during the credit crunch. Due to Basel III and IV and the restrictions imposed on dividend distributions, banks could accumulate buffers, which now enable them to provide support during the COVID-19 crisis by providing credit and loans, either government-backed or otherwise.

The COVID-19 crisis has brought great uncertainty for both businesses and banks. After the intelligent lockdown from mid-March, the economy started to pick up again in July. However, the degree of recovery in certain sectors remains highly uncertain. Institutions such as the Netherlands Bureau for Economic Policy Analysis (CPB) and the Dutch Central Bank (DNB) (see DNB *Overzicht Financiële Stabiliteit* (OFS) ('Financial Stability Overview') of June 2020) take a grim view of the economy and predict very negative economic figures, such as a strong contraction and soaring unemployment[1]. This obviously has an impact on the ability of retail and business customers to repay their loans. It is clear that the allowance for expected credit losses will increase, especially if state aid will be phased out in due course.

2. Purpose of this publication

Through this publication, the Banking Sector Committee (SCB)[2] wants to explain the importance of reliable annual and interim statements of banks in these unique COVID-19 circumstances. What matters is that uncertainties and special circumstances, for instance the assumptions applied in making estimates, are disclosed as transparently as possible. The impact which the crisis has had on the banks is still very difficult to determine at present.

[1] Reports are not universally negative, though: Statistics Netherlands, for example, occasionally has positive news as well. Much depends on innovation/adaptability. It is impossible to predict how resilient the economy will be.

[2] The SCB is a committee set up by the Board of the NBA with the aim to inform and advise the Board. The focus of its task has shifted to a social role, involving a dialogue with stakeholders in order to identify new developments and respond to these developments, with each party retaining its own area of responsibility.

Despite the great uncertainties, stakeholders still expect banks to address questions such as the following in their interim reports, however hard this sometimes might be:

- How are the bank results impacted by uncertainty and what effect will the crisis have on future results?
- What information in annual and interim reports to look for to gain a good understanding of the impact of the crisis on the bank?
- Why are the disclosures so important in understanding annual or interim results?
- Where should the auditor's focus be when reviewing the interim results in this crisis situation?

To understand a bank's financial position it is very important to have detailed notes on operational management, the composition of credit portfolios and the economic assumptions. In uncertain circumstances, banks use economic scenarios and model the effects of these scenarios on their business.

This publication will outline the impact of the COVID-19 crisis on the banks and on the expected information in annual accounts, quarterly reports and interim reports. The roles of regulators, the external auditor and the internal auditor will be briefly addressed as well.

3. Impact of COVID-19 on banks

2019 annual accounts

When the COVID-19 crisis broke out in mid-March, most auditor's opinions on the annual accounts of banks had already been issued or were about to be issued. The IFRS[3] reporting standards applied by many banks regard the COVID-19 crisis emerging in March as a 'post balance sheet event', which means that the impact of the crisis may not be included in the annual statements for 2019, which reflect the financial situation as at 31 December 2019 (see also NBA Alert 42: *Impact coronacrisis op accountantswerkzaamheden* ('Impact of corona crisis on audit procedures')). What did happen was that, if the 2019 annual report had not yet been finalised, the outbreak of the crisis resulted in adjustments being made to the 'Outlook' section of the directors' report[4] and to the notes on events after the balance sheet date. The consequence for the audit opinion issued by the auditor was that in a number of cases a clarification was included (emphasis of matter paragraph) about the great uncertainty brought about by the COVID-19 crisis, in which the auditor referred to the management's notes on the (uncertain) situation that had arisen.

Unlike the 2019 annual accounts, the figures for Q1 2020 do include the effects of the COVID-19 crisis.

[3] International Financial Reporting Standards, issued by the IASB

[4] The annual report consists of the directors' report, the annual accounts with notes and the other information, which includes the auditor's report.

Q1 2020 figures

The results for Q1 2020 of the largest American and European banks were published early May. Public analyses show significant increases to the allowances for expected credit losses[5]. It soon became clear that the impact on the expected credit losses would be substantial, and that the crisis entails much uncertainty in various areas (government aid, employment, export, income).
As a result of the economic contraction, capital repayments on many credit facilities and loans have either ceased or are greatly delayed. Therefore, the banks must substantially increase their allowance for expected credit losses. Rabobank indicated by the middle of May that its credit loss allowance would be twice as high (approximately EUR 2 billion) as the average annual level of a full economic cycle. Also Volksbank issued a COVID-19 update early in July, trying to estimate and clarify the principal consequences of the crisis for the rest of the year as accurately as possible.

The disclosure notes provided by European and Dutch banks in the figures for the first quarter were limited. A number of large British banks, such as HSBC, Lloyds Banking Group and RBS, provided their stakeholders with relatively detailed disclosures. Dutch major banks, too, present a relatively clear picture of the uncertainty resulting from the COVID-19 crisis and, using a number of economic scenarios, of the (potential) consequences for the bank's financial position, such as liquidity, solvency and profitability.

2020 interim reporting

Despite the many uncertainties due to the COVID-19 crisis, banks will want to provide the best possible insight in their business in the 2020 interim report. The annual accounts already contain a detailed description of the accounting policies and notes on items in the annual accounts. The accounting policies do not change because of the COVID-19 crisis and continue to apply. In valuing assets and liabilities and applying IFRS, banks take current and future economic circumstances into consideration. This means that in determining the value of the loan portfolio, future credit losses are taken into account.

Banks use models to determine the allowance for expected credit losses. These models reflect a number of variables, including the value of the collateral, the probability of default and the outlook of the bank's board of directors, whereby the expected macro-economic situation is inferred from multiple scenarios. In preparing these scenarios, the banks use their own economic bureaus but also look at the outlook published by regulators (DNB, ECB), government bodies (CPB, IMF, WTO) and external experts. The views are unanimous: the COVID-19 crisis will cause a considerable economic recession. As there is great uncertainty about the scope and duration of this economic recession, a key concern is whether the models generate reliable outcomes, also because the models were not designed to cope with an economic impact of this severity. Banks perform stress testing on their portfolios to analyse and challenge the modelled outcome. The auditor reviews the process which helps a bank ensure that the judgments and processes were robust.

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[5] The figures of press agency Bloomberg show that, as at the end of April, the largest banks in the world had reserved USD 80 billion in the first three months of the year. Nine American banks accounted for USD 32.5 billion, 14 European banks for EUR 18.8 billion. Banks in China were responsible for the bulk of the rest. https://www.bloomberg.com/news/articles/2020-04-29/biggest-banks-set-aside-66-billion-as-virus-fallout-hits-loans
Judging from benchmarks, the average increase in the provisions as at the end of March relative to the end of December 2019 may add up to approximately 25%.

Many banks apply the international reporting standard ‘IAS 34’ (Interim Financial Reporting) when preparing their interim reports. The standard prescribes an abridged balance sheet and profit and loss account, to be prepared in accordance with the same valuation methods as applied to the annual report, unless a new reporting standard becomes applicable (which was not the case in 2020). IAS 34 also stipulates that if an event or transaction is important for an understanding of changes in the bank’s financial position or performance, such as the losses resulting from increased credit risk, this event or transaction must be clarified in the half-yearly report.

Based on IAS 34 and with due regard for the special circumstances caused by the crisis, the following points are relevant:

- given the increased uncertainty, additional consideration will have to be given to the assumptions applied in preparing cash flow forecasts and projections when determining expected credit losses, such as the probability of default and the change in the value of collateral;
- increase the sensitivity analysis on the performance of the loan portfolio;
- the impact of (government) measures taken to limit the economic consequences of COVID-19 and determine how these were included in the forecasts[6].

Role of regulators

Regulators (DNB, ECB and ESMA) have provided interpretations in the context of COVID-19 of the reporting standards to be applied by banks, in their role as guardians of the stability of the financial system. In particular, this involves the application of reporting standard IFRS 9. IFRS 9 is a relatively new standard, which was introduced in 2018. A key difference with the previous standard (IAS 39) is that loan losses should be recognised the moment they are expected . As credit losses should be recognised earlier, IFRS 9 seeks to be more countercyclical in crisis situations, rather than reinforce them: under IAS 39, the greatest losses could only be recognised at the peak of the crisis. Given the limited experience with IFRS 9, a debate has arisen as to whether the changes to the standard are sufficient to achieve the envisaged objective (see also *Zorg over kredietvoorzieningen bij banken* (‘Concern about credit loss provisions at banks’) on Accountant.nl).

Despite the COVID-19 crisis and the great uncertainties it brings, regulators are appealing to all those involved to present the interim results and the disclosures as transparently and reliably as feasible. The interim report must clearly reflect the impact of COVID-19 on the financials (liquidity, solvency and profitability). The bank must also assess risks, in particular the going concern risks. Timely communication between the bank, DNB and the auditor about any concerns is essential to allow for timely intervention, if any.

The European legislator announced at the end of June 2020 that, if desired, the banks may temporarily refrain from charging all or part of the increase in the COVID-19 related allowance for expected credit losses (except for the ‘stage-3 loans’) to their capital. In addition, banks may opt to use a temporary scheme whereby unrealised profits and losses on government loans, which are carried on a fair value basis with changes through equity, are not posted or only in part. In doing so, the European legislator aims to negate or mitigate a number of effects of COVID-19 on the capital position of banks, thus enabling banks to continue their lending to the real economy as much as possible. These are optional schemes, and the total future effect for banks is not clear yet.

[6] In this context, two types of measures can be distinguished: (1) the government tries to mitigate the impact of the crisis (for example by means of the NOW scheme), and (2) guidance is provided with regard to the calculation system under IFRS 9, for example in respect of generic moratoria. See especially the letter from the ECB

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Role of external auditor and internal auditor

The external auditor's role is primarily to seek a timely dialogue the bank's management board and audit committee. This dialogue should cover the impact COVID-19 has had on the business and the expectations the bank and the auditor have with regard to the interim report, in particular the disclosures around the impact of COVID-19 on the business. Transparency is an important when it comes to providing insight into the application of models, preparing estimates, applying judgment and describing economic scenarios. The analysis must be specific, in-depth and in line with the characteristics of the specific bank. The auditor reviews the robustness of the procedures and will apply professional scepticism, increasing the depth of his or her own procedures if the auditor considers the impact of COVID-19 is not adequately reflected in the statements or the disclosures. For interim reporting, the auditor is engaged to perform a review and provides an opinion with limited assurance, known as a review report. The primary procedures the auditor undertakes are interviewing relevant staff members of the bank to gather information and performing analytical procedures in order to obtain adequate and appropriate evidence. However, what procedures would be considered sufficient against the backdrop of a unique crisis?

The internal auditor provides insight and assurance to the bank's management by specifically monitoring and auditing the effectiveness of the governance, risk management and control processes. This includes assessing the impact of the crisis on risk management and operational bank systems as well as testing procedures for determining expected credit losses. The internal auditor will consider the interpretation of IFRS and guidance provided by regulators. It is important to discuss the outcomes of these procedures and any findings or patterns with the audit committee. The internal auditor's activities also constitute necessary input for the external auditor and the regulator. The activities of the internal auditor will stretch beyond credit risk. Consideration is also given to, for example, the impact of working from home, liquidity management and other potential COVID-19 risks.

4. Key concerns and recommendations for half-yearly figures of banks

As outlined above, the interim reports for the period ending on 30 June 2020 will require more extensive disclosures than in previous years. After all, the applicable reporting standard IAS34, 'Interim Financial Reporting', stipulates that brief disclosures are sufficient for the interim report, unless there are significant changes since the preparation and publication of the annual results. Given the severity and scope of the COVID-19 outbreak only became apparent in the second half of March, when most banks had already published their annual results for 2019, this is the first external publication prepared on the basis of IFRS which requires enhanced disclosures. Please note in this context that the Q1 reports (for the period ending on 31 March 2020) of Dutch banks were not compiled in accordance with IAS 34 and were not reviewed by the external auditor. The interim reports, on the other hand, are reviewed in greater depth and management's assessments will have to be sufficiently reflected in the disclosures.

We highlight the following key considerations (including recommendations) for the preparers of these reports:

Portfolio composition

The impact of the COVID-19 outbreak on the expected credit losses of banks is largely dependent on the composition of the bank's loan portfolio. The first important differentiation is between business and retail clients. Certain business sectors are particularly badly impacted. Examples include the sectors relating to logistics and leisure, such as aviation and tourism. This affects both major corporate clients such as the airline KLM and small and medium-sized enterprises such as restaurants and travel agencies. The risks in personal loans have also increased, e.g. in respect of mortgages and consumer credit there is an increased likelihood of default by, for example, self-employed workers who have lost income because of the COVID-19 crisis.

In short, in order to have a good understanding of the impact of the COVID-19 crisis on the risk profile of the bank, it is important that banks provide insight in the composition of their loan portfolios. Therefore, we expect banks to include detailed breakdowns of their loan portfolios into type of counterparty and sector in their interim reports. A good example of this is included in Appendix 1: this is the summary which HSBC Holdings Plc (HSBC) included in its report on Q1. The table presents a breakdown of the loan portfolio into types of loan and countries and shows the credit loss allowance per category. In the notes, HSBC also specified sectors that are particularly affected by the COVID-19 crisis.

Granting of support measures

In response to the COVID-19 crisis, many Dutch banks have provided customers with a level of forbearance, often in the form of 'payment holidays'[7]. This means that interest and capital payments are suspended to bridge a period of (significant) loss of income. The most common applied form of such a payment holiday relates to residential mortgages, whereby customers are exempt from making payments for three to six months. Most Dutch banks offer such payment holidays in some form or other.

If these payment holidays result only in a deferral of payment, these measures will have no impact on the allowance for credit losses. They are however a sign of increased credit risk. If there is an increased likelihood of default, the accounting standards stipulate that the allowance for expected losses must increase.

The estimate of this risk is highly subjective. This might cause different banks to approach this differently and therefore apply different judgments. We therefore consider it important that banks disclose in their interim reports the extent to which payment holidays or similar measures (known as 'forbearance') have been granted and how these were taken into account in estimating the allowance for expected credit losses.

This could take the form of notes on the principal assumptions and estimates used in the preparation of the interim results.

Application of macro-economic scenarios

Under IFRS 9, the expected future credit losses over the next 12 months (for loans whereby the credit risk has not increased) or over the term of the loan (for loans whereby the credit risk has increased, known as ECL: 'expected credit losses') must be considered. In other words: future expectations carry much weight in the calculation of the allowance as at the reporting date. One of the principal assumptions is the macro-economic outlook. Normally, this outlook follows a business cycle. Forward-looking loan loss allowances are in keeping with this cycle and follow a reasonably predictable trend.

[7] Reference is made to the EBA report for the distinction between collective and individual moratoria.

The COVID-19 shock breaks this this trend and may cause a sudden increase in the expected credit losses. This shock effect on the wider economy will be one of the principal variables in determining the allowance as at 30 June 2020. This is particularly relevant as there may be an increase in the credit risk of a large number of loans, which means that the allowance must be determined for the expected losses over the entire term of the loan instead of only for the first 12 months (in IFRS 9 terms, because loans migrate from stage 1 to 2). Important indicators in this context are (the shape of) economic contraction and the developments in unemployment and house prices. Results vary widely by sector though, and specific indicators are required in order to process this increase correctly. For example, fitness centres, culture and tourism have been harder hit than other sub-sectors in leisure.

Various bodies have already commented on the adjusted expected macro-economic outlook as a result of the COVID-19 crisis. In June, DNB published its expectations regarding the economic outlook in a basic scenario, a mild scenario and a severe scenario. In its assessment, DNB points to the significant uncertainties inherent in these estimates.

5. Conclusion

In preparing their interim reports, banks will use the most recent economic outlook for their scenario analysis. Auditors expect banks to include detailed disclosures around the macro-economic outlook applied because the underlying assumptions have significant impact on the modelled outcomes *and* because there is so much uncertainty about the future situation. In this context, banks will also disclose what weighting they attach to each of the scenarios (mild, basic, severe), and so make it clear how they arrived at their assumptions.

A good example of such disclosure is included in Appendix 2. These notes were in the interim report of Australia and New Zealand Banking Group Limited, and show how the bank updated its assumptions as a result of the COVID-19 crisis.

APPENDICES

Appendix 1: *HSBC 1Q20 Earnings Release*

Summary of credit risk

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 March 2020

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage 1	Stage 2	Stage 3	POCI[2]	Total	Stage1	Stage2	Stage3	POCI[2]	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	%	%	%	%	%
Loans and advances to customers	934,252	101,714	14,401	300	1,050,667	(1,498)	(3,078)	(5,713)	(96)	(10,385)	0.2	3.0	39.7	32.0	1.0
Personal	395,313	16,860	4,839	–	417,012	(708)	(1,697)	(1,274)	–	(3,679)	0.2	10.1	26.3	–	0.9
– Europe	175,659	7,592	2,319	–	185,570	(132)	(820)	(659)	–	(1,611)	0.1	10.8	28.4	–	0.9
of which: UK	*143,239*	*6,111*	*1,513*	–	*150,863*	*(110)*	*(792)*	*(406)*	–	*(1,308)*	*0.1*	*13.0*	*26.8*	–	*0.9*
of which: UK first lien mortgages	*128,177*	*1,802*	*1,036*	–	*131,015*	*(14)*	*(17)*	*(111)*	–	*(142)*	–	*0.9*	*10.7*	–	*0.1*
of which: UK other personal lending	*15,062*	*4,309*	*477*	–	*19,848*	*(96)*	*(775)*	*(295)*	–	*(1,166)*	*0.6*	*18.0*	*61.8*	–	*5.9*
– Asia	169,782	5,764	751	–	176,297	(258)	(359)	(177)	–	(794)	0.2	6.2	23.6	–	0.5
of which: Hong Kong	*117,050*	*2,665*	*248*	–	*119,963*	*(108)*	*(224)*	*(51)*	–	*(383)*	*0.1*	*8.4*	*20.6*	–	*0.3*
of which: Hong Kong first lien mortgages	*86,745*	*1,002*	*42*	–	*87,789*	*(1)*	–	–	–	*(1)*	–	–	–	–	–
of which: Hong Kong other personal lending	*30,305*	*1,663*	*206*	–	*32,174*	*(107)*	*(224)*	*(51)*	–	*(382)*	*0.4*	*13.5*	*24.8*	–	*1.2*
– MENA	5,469	353	277	–	6,099	(60)	(86)	(176)	–	(322)	1.1	24.4	63.5	–	5.3
– North America	38,996	2,316	1,271	–	42,583	(122)	(174)	(150)	–	(446)	0.3	7.5	11.8	–	1.0
– Latin America	5,407	835	221	–	6,463	(136)	(258)	(112)	–	(506)	2.5	30.9	50.7	–	7.8
Corporate and commercial	469,067	79,770	9,267	299	558,403	(742)	(1,334)	(4,321)	(95)	(6,492)	0.2	1.7	46.6	31.8	1.2
– Europe	152,308	18,765	4,563	120	175,756	(274)	(513)	(1,508)	(43)	(2,338)	0.2	2.7	33.0	35.8	1.3
of which: UK	*107,267*	*14,144*	*3,263*	*73*	*124,747*	*(226)*	*(447)*	*(954)*	*(32)*	*(1,659)*	*0.2*	*3.2*	*29.2*	*43.8*	*1.3*
– Asia	232,818	40,215	2,081	132	275,246	(248)	(330)	(1,422)	(35)	(2,035)	0.1	0.8	68.3	26.5	0.7
of which: Hong Kong	*147,390*	*24,993*	*616*	*49*	*173,048*	*(122)*	*(193)*	*(408)*	*(25)*	*(748)*	*0.1*	*0.8*	*66.2*	*51.0*	*0.4*
– MENA	17,272	5,658	1,853	18	24,801	(61)	(164)	(1,048)	(12)	(1,285)	0.4	2.9	56.6	66.7	5.2
– North America	55,380	13,737	483	–	69,600	(60)	(266)	(172)	–	(498)	0.1	1.9	35.6	–	0.7
– Latin America	11,289	1,395	287	29	13,000	(99)	(61)	(171)	(5)	(336)	0.9	4.4	59.6	17.2	2.6
Non-bank financial institutions	69,872	5,084	295	1	75,252	(48)	(47)	(118)	(1)	(214)	0.1	0.9	40.0	100.0	0.3
– Europe	27,709	1,014	227	1	28,951	(16)	(16)	(75)	(1)	(108)	0.1	1.6	33.0	100.0	0.4
of which: UK	*20,184*	*874*	*105*	–	*21,163*	*(12)*	*(14)*	*(5)*	–	*(31)*	*0.1*	*1.6*	*4.8*	–	*0.1*
– Asia	29,178	3,669	18	–	32,865	(24)	(26)	(18)	–	(68)	0.1	0.7	100.0	–	0.2
of which: Hong Kong	*17,599*	*3,010*	*18*	–	*20,627*	*(9)*	*(20)*	*(18)*	–	*(47)*	*0.1*	*0.7*	*100.0*	–	*0.2*
– MENA	284	51	34	–	369	–	(1)	(12)	–	(13)	–	2.0	35.3	–	3.5
– North America	11,314	313	6	–	11,633	(4)	(3)	(5)	–	(12)	–	1.0	83.3	–	0.1
– Latin America	1,387	37	10	–	1,434	(4)	(1)	(8)	–	(13)	0.3	2.7	80.0	–	0.9
Loans and advances to banks	84,208	353	–	–	84,561	(13)	(1)	–	–	(14)	–	0.3	–	–	–
Other financial assets at amortised cost	701,322	3,078	149	1	704,550	(48)	(74)	(47)	–	(169)	–	2.4	31.5	–	–
Loan and other credit-related commitments	586,262	27,208	831	1	614,302	(152)	(220)	(112)	–	(484)	–	0.8	13.5	–	0.1
– personal	223,368	1,712	191	–	225,271	(13)	(1)	–	–	(14)	–	0.1	–	–	–
– corporate and commercial	222,187	24,443	637	1	247,268	(131)	(218)	(112)	–	(461)	0.1	0.9	17.6	–	0.2
– financial	140,707	1,053	3	–	141,763	(8)	(1)	–	–	(9)	–	0.1	–	–	–
Financial guarantees	16,478	2,651	148	4	19,281	(19)	(33)	(6)	–	(58)	0.1	1.2	4.1	–	0.3
– personal	769	1	1	–	771	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	11,597	2,344	142	4	14,087	(17)	(32)	(5)	–	(54)	0.1	1.4	3.5	–	0.4
– financial	4,112	306	5	–	4,423	(2)	(1)	(1)	–	(4)	–	0.3	20.0	–	0.1
At 31 Mar 2020	2,322,522	135,004	15,529	306	2,473,361	(1,730)	(3,406)	(5,878)	(96)	(11,110)	0.1	2.5	37.9	31.4	0.4

Appendix 2: *Australia and New Zealand Banking Group Limited – Half Year 31 March 2020 Financial Report*

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Judgement/Assumption	Description	Changes and considerations during the half year ended 31 March 2020
Base case economic forecast	The Group derives a forward looking "base case" economic scenario which reflects ANZ's view of the most likely future macro-economic conditions.	There have been no changes to the types of forward looking variables (key economic drivers) used as model inputs in the current half year. As at 31 March 2020, the base case assumptions have been updated to reflect the rapidly evolving situation with respect to COVID-19. This includes an assessment of the impact of central bank (monetary policy), governments (wage subsidies), and institution specific responses (such as payment holidays). These are considered in determining the length and severity of the forecast economic downturn. The expected outcomes of key economic drivers for the base case scenario as at 31 March 2020 and those previously used as at 30 September 2019 are described below under the heading "Forecast base case assumptions".
Probability weighting of each scenario (base case, upside[1], downside[1] and severe downside[2] scenarios)	Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case scenario.	The key consideration for probability weightings in the current period is the continuing impact of COVID-19. In addition to the base case forecast which reflects largely the negative economic consequences of COVID-19, greater weighting has been applied to the downside and severe downside scenarios given the Group's assessment of downside risks. The assigned probability weightings in Australia, New Zealand and Rest of world are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these weightings in each geography to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Group's credit portfolios in determining them.

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