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Banks' funding plans post TLTRO III

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Agenda

1 BANKS' FUNDING PLANS POST TLTRO III – OVERVIEW

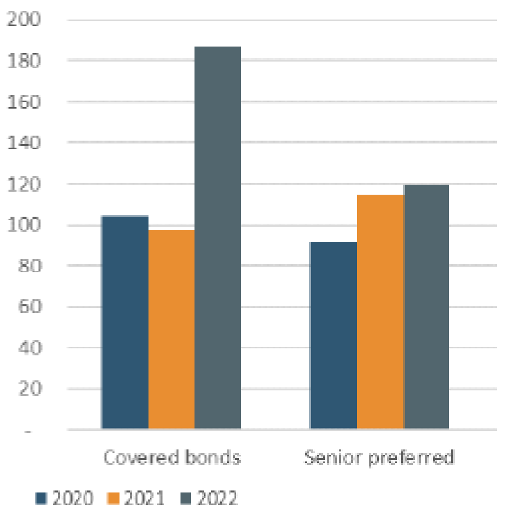
2 SHORT TERM FUNDING INSTRUMENTS
- Central bank funding
- Customer deposits
- Short Term Paper
- Unsecured and Secured Market

BANKS' FUNDING PLANS POST TLTRO III - OVERVIEW

- The expectation is that the banks will be able to manage the TLTRO III refinancing needs, considering that:
  - The **Liquidity and Funding Plan for 2023 and for the following years have already steered the funding strategy and the liquidity management, defining also the TLTRO exit strategy**
  - The **wholesale market is quite efficient** and the **appetite from investors** in this first part of the year has been significant, al least for big banks/national champions
  - **The instruments to define the funding mix are all available and well known:**
    - **SHORT TERM:** short term paper, repo, interbank market, customer deposits
    - **MLT:** senior and covered bonds, Additional Tier1 and Tier2, MLT repo
    - **Central Bank Funding:** MRO-LTRO (especially during the "TLTRO exit strategy period")
  - A large majority of banks has acted in advance since the end of 2022/beginning of 2023 with **pre-funding strategies**

- More than in the past, in any case, starting from the second part of 2023, after T-LTRO repayments, the Funding Plan **execution should be flexible and with an ongoing assessment during the year, depending** on :
  - the evolution of trends for the borrowing and lending with customers
  - market conditions
  - balance sheet size
  - Liquidity indicators, MREL, internal limits, etc…
  - Rating agencies, analyst and investors's expectations

Issuance volumes of EU/EEA banks' debts (€/Bln)



Source Dealogic/EBA Report Jun 23

CENTRAL BANK FUNDING

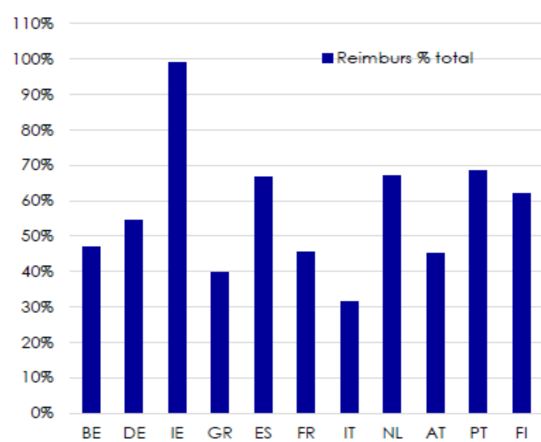
Given the current and prospected high **concentration of excess reserves** among few countries/counterparties, the **demand for central bank funding is expected to remain significant** and even higher than before the outbreak of the Great Financial Crisis for many reasons:

- The introduction of **binding regulatory measures on liquidity in 2015 (LCR) and in 2021 (NSFR),**
- **it's hard to envisage a recovery of the interbank market** once excess reserves will fade out, this is due to a structural reduction in bank's risk appetite for unsecured lending
- Banks nowadays want to **hold much bigger cushion of liquidity than in past,** even more now in the aftermath of the US March banking crisis **and the liquidity positions of banks is again one of the most relevant point of attention also for investors and analyst**

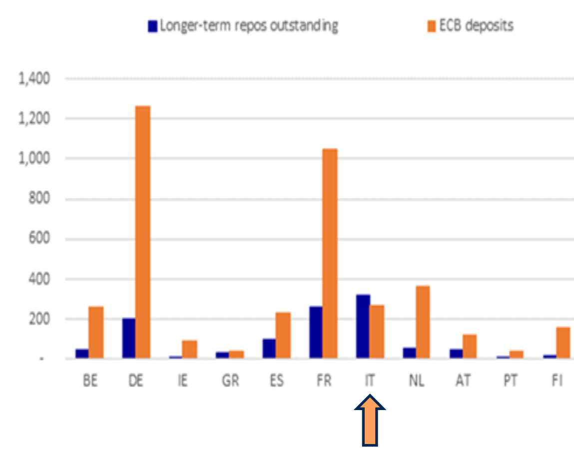
Key points for Central Bank funding in the future:

- No stigma
- Full allotment
- Interest rate conditions
- MRO and LTRO both available and (T)LTROs should become a permanent feature in the operational framework, either for general monetary policy purposes or for providing incentives to support lending to certain sectors of the real economy (e.g. green projects).

TLTRO III - Reimbursements from Sep '21 (% total allocated)



Eurosystem - Longer-term refinancing operations vs deposits at the ECB (EUR bn)



Source: ECB, Intesa Sanpaolo

CUSTOMER DEPOSITS

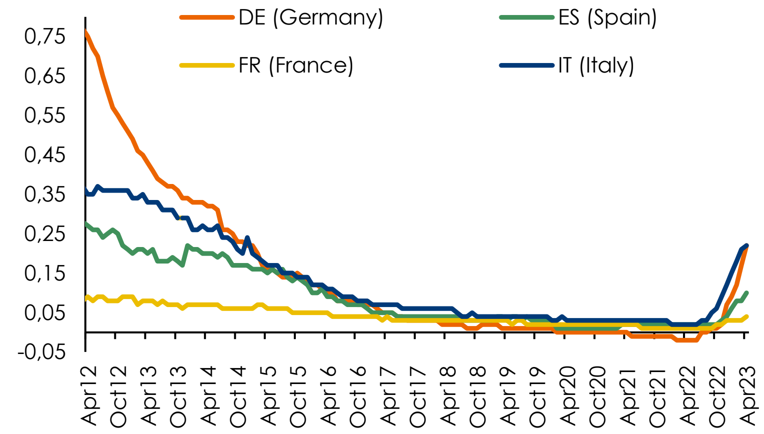
Customer deposits remain a **relevant funding source** in all European Countries not only for liquidity management but due to the **positive impact on liquidity ratios**.

Great attention is paid to the **recent downtrend** that, even if with a different magnitude, has affected all jurisdiction.

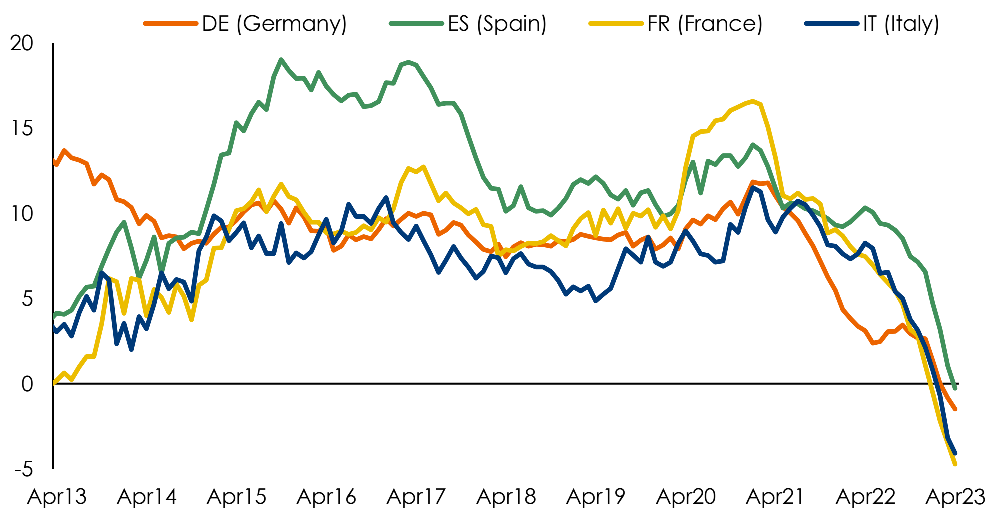
Among the main reason for the reduction of retail and corporate's sight deposits:

- Shifting from sight to term deposits due to higher rates
- Shifting from deposits to govies (quite significant for example in Italy, in june the Italian treasury has sold 18bln ot 4y step up bond BTP Valore to retail)
- Liquidity needs /loans reduction

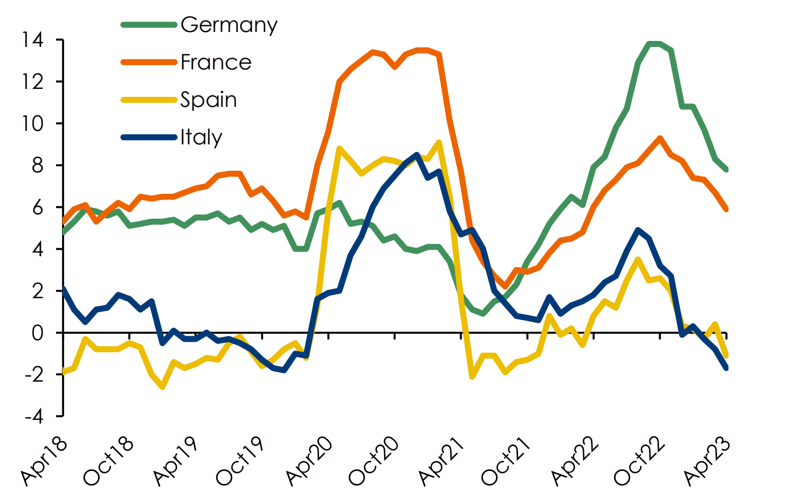
Retail Current accounts rates (%)



Trend in Retail current accounts (% change Y/Y)



Trend in loans to non-financial companies (y/y % change)



Source: ECB, Intesa Sanpaolo

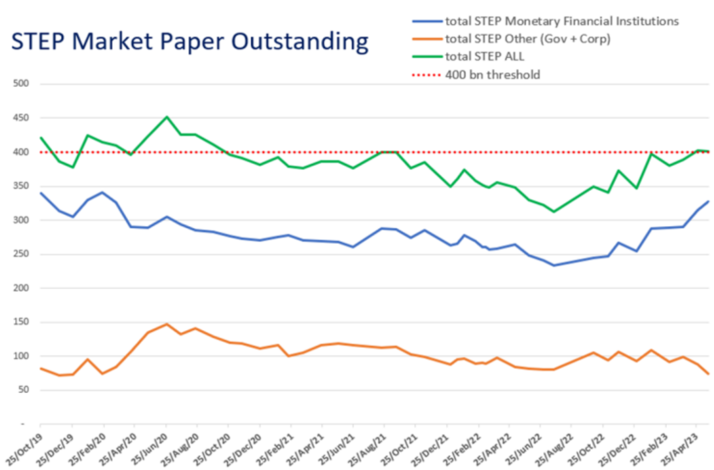
SHORT TERM PAPER

Wholesale Short-Term Funding will maintain **a fundamental role for diversification of maturities/currency/investors** especially after TLTRO III repayment, taking into consideration that the Euro Short term paper, is the main channel that connects the buy side (MMF and AM players) with banks looking for funding also on maturities longer than 1 month.

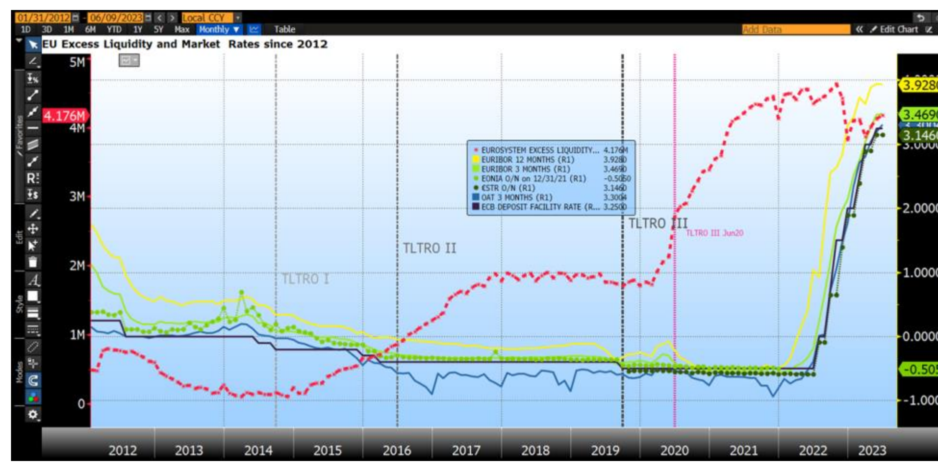
Short-term investors, with the persistent increase of official rates, enhanced the appetite for short term instruments, particularly for CP/CD.
The activity in the **ECP/CD market has produced an increase of the outstanding of STEP** Paper starting from 2022. In fact after some years of downtrend STEP outstanding is back to the historical level of around 400 €/bln.

In term of further possible developments:

- at the moment the demand for **short-term green paper** remain not relevant as the impression is that Euro MMFs are predominantly investing in ESG-based Issuer rather than ESG-based Asset
- **digital solutions** (DLT) could facilitate and speed the issuance process and some initiatives are already in place



Source SYTEP, ECB, Intesa Sanpaolo



Source Bloomberg, Intesa Sanpaolo

INTERBANK UNSECURED MARKET

- An active interbank market should remain a **fundamental pillar of wholesale cash management** also in the future and it will be even more relevant when the excess liquidity will decrease. The **concentration on short tenors** doesn't allow to consider the interbank unsecured as a stable funding source
- **Regulators should possibly find ways (and incentives for MFI) to foster a gradual return to an acceptable level of interbank activity**, also as a way to reduce central banks' role of «clearing house» between banks and disinflating their balance sheets accordingly**.**
- **A proxi of interbank activity is the transaction based Euribor contribution** (level 1-2). The comparison of the last available data (apr 2023) with the situation one year ago shows a **small improvement due to market conditions and to an increasing number of transactions with counterparties outside the Euro Area and with NBFI that have no access to the Deposit Facility**

EURIBOR CONTRIBUTION

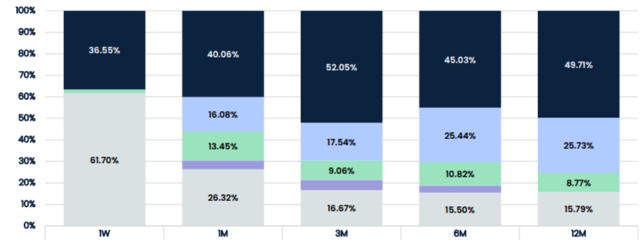
APRIL 2022

Use of each level[1] of the hybrid methodology, broken down by tenor

	1W	1M	3M	6M	12M
Level 3	57.89%	41.81%	43.86%	64.04%	55.56%
Level 2.3		24.85%	26.32%	16.67%	28.65%
Level 2.2	1.46%	5.85%	7.89%	6.43%	3.80%
Level 2.1		9.06%	1.75%	3.22%	
Level 1	40.64%	18.42%	20.18%	9.65%	11.99%

APRIL 2023

Use of each level[1] of the hybrid methodology, broken down by tenor



	1W	1M	3M	6M	12M
Level 3	36.55%	40.06%	52.05%	45.03%	49.71%
Level 2.3		16.08%	17.54%	25.44%	25.73%
Level 2.2	1.75%	13.45%	9.06%	10.82%	8.77%
Level 2.1		4.09%	4.68%	3.22%	
Level 1	61.70%	26.32%	16.67%	15.50%	15.79%

Source EMMI transparency Indicators

SECURED MARKET

The TLTRO repayments has made available significant quantities of **Eligible Non-HQLA** that can be utilized as collateral in repos to support the TLTRO exit strategy and with a benefit for **LCR ratio**.

Bilateral Repo market both **short term and medium long term** has grown significantly during the last few months, mainly up to 3years maturities and with different structures (bullet and/or callable).
The negotiation is based on ad hoc Term-sheets, counterparties are **banks and also NBFI** (mainly insurance companies).

Taking into consideration the growing interest in these repos, the expectation is that the instrument will keep a role for diversification purposes and that will remain **also in the future a channel for stable funding.**

Short-term **GC repo market** has maintained a strong resilience, further enhanced after TLTRO-III repayments and also in the light of the liquidity placed in the markets by the public sector looking for yield after the ECB decisions on non-MFI policy deposits remuneration. The market remain concentrated on very short maturities and so for banks could be only partially part of TLTRO substitution strategies.

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