Temporary expansion of Collateral Eligibility criteria / 9th Feb ECB decision

An italian perspective

Marco Bertotti / Intesa Sanpaolo
ECB’s Gov Council approves eligibility criteria for additional “credit claims” / 9th Feb 2012

- Bank of Italy’s among the 7 nat. Central Banks that put forward proposals and specific eligibility criteria for temporary accepting performing Credit Claims

- Objective: support bank lending and liquidity in the euro area money market

- Features of the Claims:
  - PD over 1y horizon up to 1%
  - In addition to other accepted ECAF sources, creditworthiness now can be assessed with VALCRE Icas run by Bank of Italy
  - Financial leasing and non-recourse factoring contracts (with leasing and factoring co.s considered as “valid providers of pledge” in favour of the ECB ctps that belong to the same banking group)
  - Loans guaranteed by SACE (Italian ECA)
Preliminary impact assessment of introduced measures

- Estimates by It MFIs currently on-going but... “Here, again, there was one newspaper that wrote that Italy had taken 70 billion euros against these additional credit claims, when the figure was about 3 billion euros” *

- Preliminary considerations:

<table>
<thead>
<tr>
<th>Impact</th>
<th>Preliminary considerations:</th>
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<tbody>
<tr>
<td>Positive</td>
<td>PD over 1y horizon up to 1%</td>
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<tr>
<td>Under analysis</td>
<td>VALCRE lcas:</td>
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<td></td>
<td>-for bks w/o IRB/ECAI/3rd party RT</td>
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<tr>
<td>Positive</td>
<td>Fin. leasing and non-rec. factoring contracts</td>
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<td></td>
<td>-currently under evaluation:</td>
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<td></td>
<td>the possibility to reduce the min. size (below 500k)</td>
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<td></td>
<td>If application of minimum size enlarged to debtor and not only single credit (pool of credits)</td>
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<td>Under analysis</td>
<td>Loans guaranteed by SACE (Italian ECA)</td>
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<td></td>
<td>debtors/governing. law mostly non EA / ccyes non-Euro</td>
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</tbody>
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*Gov. Draghi Q&A Transcript / 8° March 2012 Press Conference
A quick *look-back* at It Rep. Legislative Decree 6th Dec 2011..

- Ministry of Econ. and Finance, until 30th June 2012, allow banks to “benefit from the State guarantee on new debt instruments, secured and unsecured“**

- **Features:**
  - State guarantees should in general only cover debt with maturities between 1-5 years (7 y in case of Covered Bonds);
  - Interested banks apply to Bank of Italy and MEF, whose approval is subject to BOI assessment on the Banks’ capital ratios and prospected income (a “cap” is set at the level of regulatory capital)
  - Pricing of the guarantees will be linked to CDS spreads over a three-year period ending one month before the grant of guarantees;
  - The formula should:
    - isolate the intrinsic risk of individual banks from changes in CDS spr. of Member States and the market as a whole;
    - reflect the fact that guarantees on CB expose the guarantor to substantially lower risk that guarantees on unsecured debt.

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..and at how banks’ funding plans adapted to the new instruments

- End-Dec 2011: approx 40.4 bn/eur issued by 14 banks with 96% of total < 1 year (90% 3 months);

- End-Feb 2012: approx 83 bn/eur issued by 253 banks, with high concentration:
  - 21 top banks represents 86% of the sample (issuance minimum lvl > 500 mln);
  - 226 low-tier banks (with debt issuance < 500 mln/eur) represented 14% of the overall amt of which 199 issuers with < 100 mln/eur

Intesa Sanpaolo Research Dept. / Credit Mkt Strategies 23° Dec 2011 / 2° March 2012 . Source: Bloomberg/Borsa Italiana
MFI assets/liabilities... a focus on Loans/Government Bonds and ECB refinancing as of end-Jan 2012 (1)

<table>
<thead>
<tr>
<th>bn/eur</th>
<th>FRANCE</th>
<th>GERMANY</th>
<th>ITALY</th>
<th>SPAIN</th>
<th>HOLLAND</th>
<th>BELGIUM</th>
<th>AUSTRIA</th>
<th>PORTUGAL</th>
<th>IRELAND</th>
<th>GREECE</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI TOTAL ASSETS</td>
<td>8452.54</td>
<td>8517.36</td>
<td>4119.15</td>
<td>3651.83</td>
<td>2467.64</td>
<td>1192.15</td>
<td>1008.62</td>
<td>571.31</td>
<td>1298.13</td>
<td>466.68</td>
</tr>
<tr>
<td>LOANS TO EURO AREA RESIDENT</td>
<td>201.67</td>
<td>395.91</td>
<td>256.13</td>
<td>90.56</td>
<td>51.97</td>
<td>28.42</td>
<td>29.67</td>
<td>12.38</td>
<td>60.51</td>
<td>12.91</td>
</tr>
<tr>
<td>HOLDINGS OF EA GOVIES</td>
<td>219.92</td>
<td>298.55</td>
<td>280.04</td>
<td>229.58</td>
<td>83.17</td>
<td>99.62</td>
<td>29.28</td>
<td>26.2</td>
<td>47.47</td>
<td>40.11</td>
</tr>
<tr>
<td>ECB REFINANCING*</td>
<td>124.3</td>
<td>55.7</td>
<td>202.59</td>
<td>161.41</td>
<td>9.66</td>
<td>31.36</td>
<td>13.7</td>
<td>46.47</td>
<td>92.61</td>
<td>73.96</td>
</tr>
</tbody>
</table>

*:French data as of 17th Jan 2012 / German data as of 31st Dec 2011

Intesa Sanpaolo Research Dept. Data from: Thompson Reuters Datastream
MFI assets/liabilities... a focus on Loans/Government Bonds and ECB refinancing as of end-Jan 2012 (2)

Euro area bank debt redemptions and use of ECB facilities
In billions of euros

Debt redemptions
GIIPS / other EA
Uncollateralised
Collateralised

Use of ECB LTROs
Greece, Ireland and Portugal
Belgium and France
Italy and Spain
Finland, Germany and Luxembourg

Use of ECB deposit facility
Greece, Ireland and Portugal
Belgium and France
Italy and Spain
Finland, Germany and Luxembourg

1 Redemptions of either Greek, Irish, Italian, Portuguese or Spanish (GIIPS) banks or other euro area (EA) banks. Collateralised debt is mainly covered bonds, but also includes smaller amounts of other bonds and asset-backed securities. 2 Longer-term refinancing operations. 3 Data are end-of-month balance sheet positions of national central banks vis-a-vis domestic monetary financial institutions (MFIs). For France, the data show average of daily values over the maintenance period beginning in the same month. For Greece, December 2011 values are assumed equal to November 2011 values, as overall lending to MFIs changed little. For Spain, data show average values for the following calendar month, since LTROs tend to be conducted towards month-ends.

Sources: ECB; Dealogic; national data; BIS calculations.

BIS Quarterly review, March 2012
MFI assets/liabilities... a focus on Loans/Government Bonds and ECB refinancing as of end-Jan 2012 (3)

Indicators of euro area government funding conditions

Bond yields and CDS premia

Government bond yields

Net purchases of government bonds by banking system

The vertical lines on 29 November 2011, 7 December 2011, 20 December 2011 and 28 February 2012 highlight the last end-of-day prices before, respectively, the reduction in the price of dollar funding from central banks, the announcement and allotment of the first and second three-year ECB funding operations.

DE = Germany; ES = Spain; FR = France; GR = Greece; IE = Ireland; IT = Italy; PT = Portugal.

1 Five-year government bond yields appear as solid lines and five-year dollar-denominated CDS premia as dotted lines, in basis points. 2 In per cent. 3 Net purchases in December 2011 and January 2012; in billions of euros.

Sources: ECB; Bloomberg; Markit; national data; BIS calculations.

BIS Quarterly review, March 2012