



Banks' usage of TLTRO III funds

*Main factors for using the June 2020 TLTRO III.4 operation
and trends in the Italian lending market*

ECB Money Market Contact Group

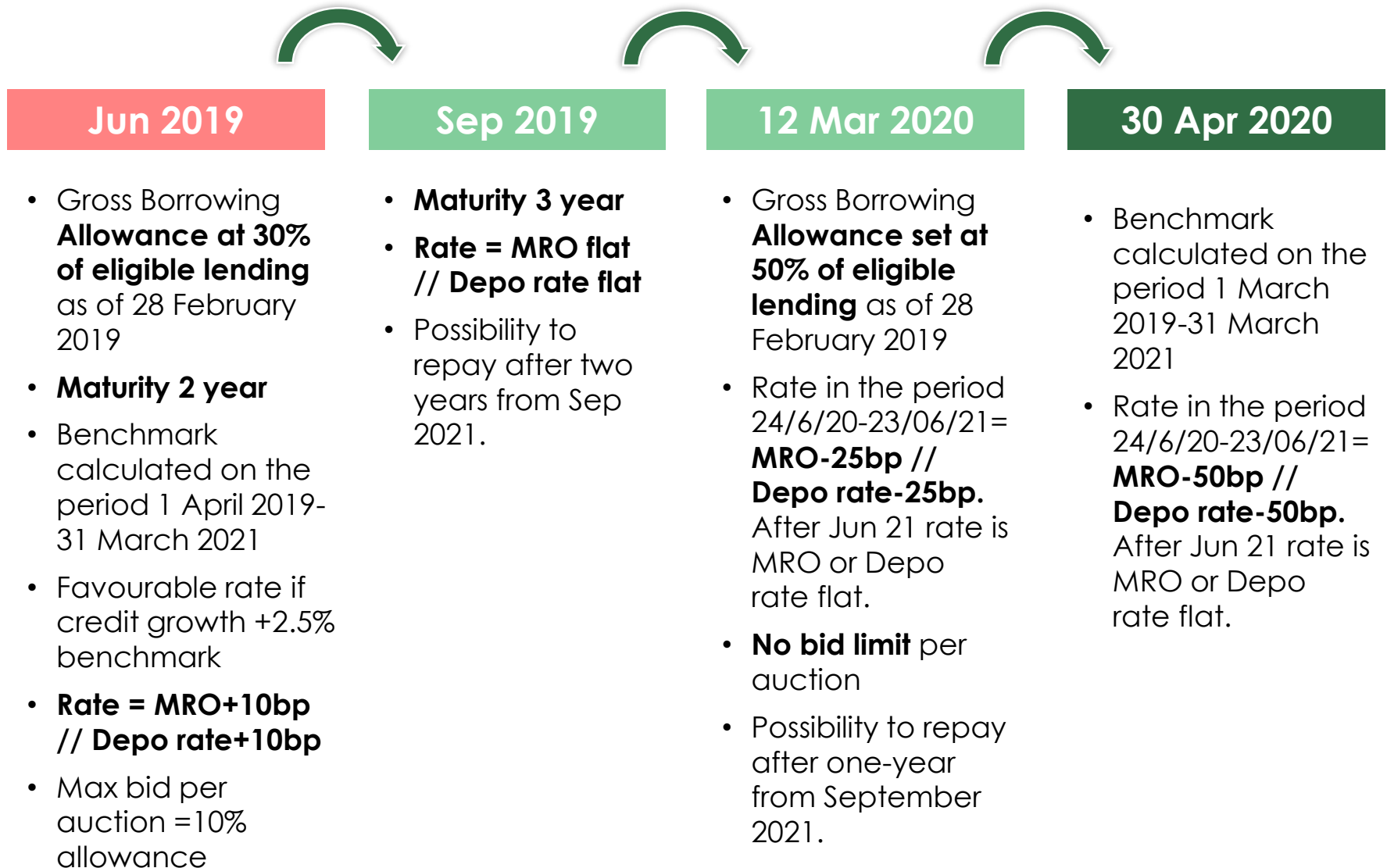
22nd September 2020

See Appendix for important notices.

Banks' usage of TLTRO III funds

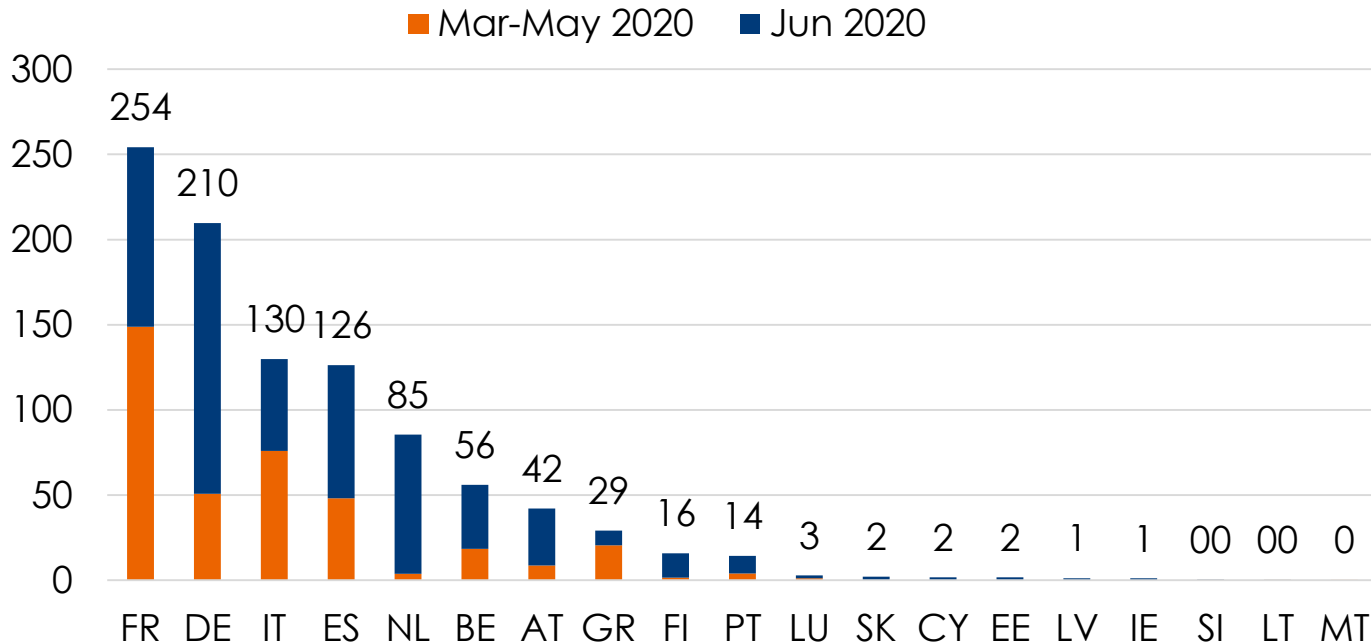
- 1 TLTRO's take up fostered by sweetened conditions
- 2 Borrowed funds are flowing into new lending to corporates
- 3 Benefits in terms of pricing
- 4 Benefits in terms of bank's regulatory ratios
- 5 Our expectations going forward
- 6 Trends in the Italian lending market

TLTRO III structure has been sweetened over time



Longer-term refinancing operations at the ECB surged with the Covid outbreak

Longer-term refinancing operations at the ECB (EUR Bn)

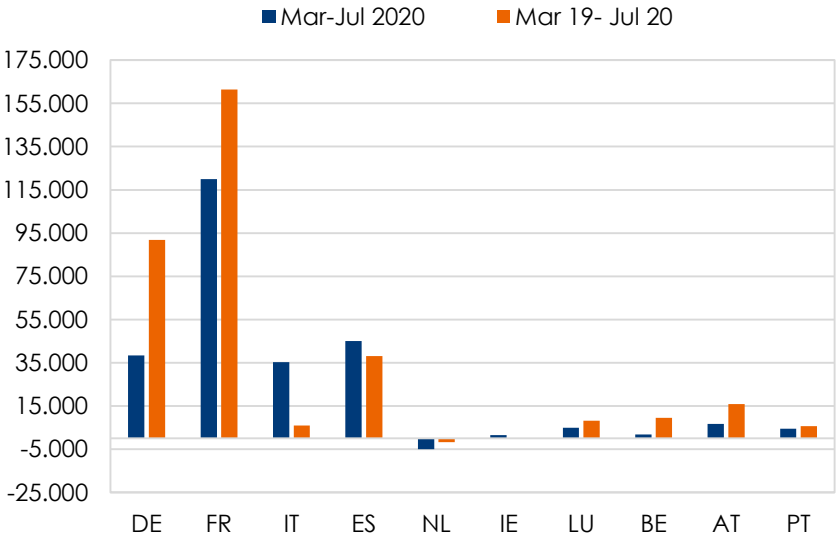


Source: ECB, Bloomberg, Intesa Sanpaolo

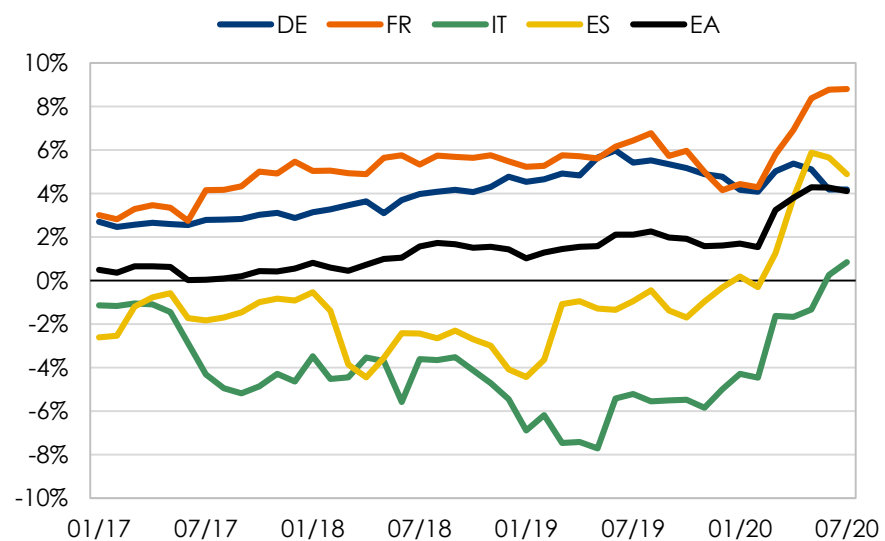
Eligible lending started climbing in March 2020

- **The revised structure of TLTRO III include a “special interest rate period”** between 24 Jun '20 and 23 Jun '21 in which the interest rate shall be the average interest rate on the deposit rate minus 50 bp for counterparties that maintain their levels of **credit provision calculated on the “special reference period” from 1 March 2020 to 31 March 2021.**
- According with ECB data, **the eligible loans** (loans to non-fin corporations and households excluding home mortgages) **surged by 253 billion euros between March 2020 and July 2020.**

TLTRO 3 eligible lending (Eur Bn change)



TLTRO 3 eligible lending (% yoy)



Source: ECB, Bloomberg, Intesa Sanpaolo

TLTRO III.5 rate remains competitive vs other funding sources

TLTRO III.5 cost vs other sources of funding for the banking system of major EA countries (%)

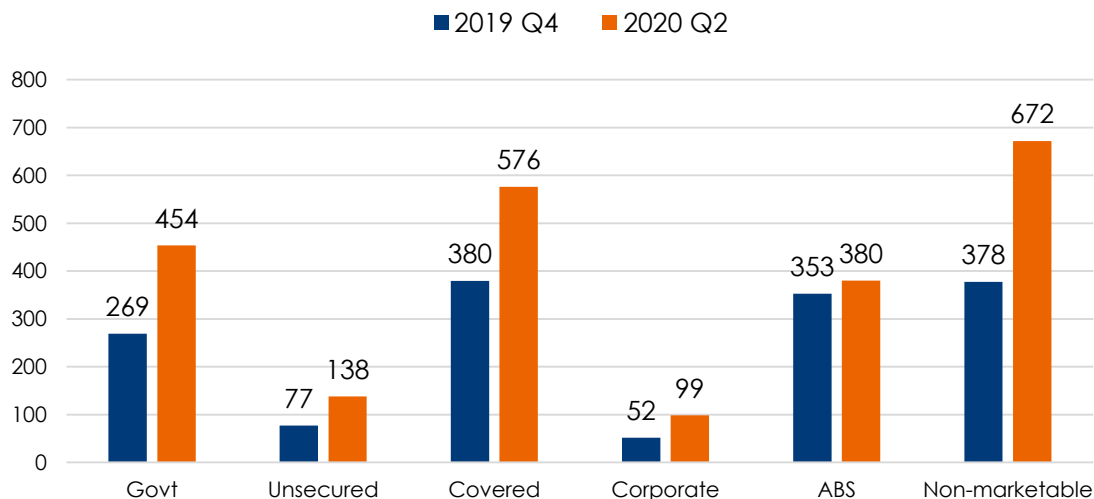
| | Germany | France | Italy | Spain |
|--------------------------------------------------|--------------|--------------|--------------|--------------|
| Estimated max gross allowance TLTRO 3.5 (EUR Bn) | 476 | 318 | 142 | 68 |
| Avg TLTRO 3.5 rate % (*) | -0.37 | -0.37 | -0.37 | -0.37 |
| Market funding sources | | | | |
| 3Y Bonds | 0.24 | -0.07 | 0.43 | 0.41 |
| 5Y Covered Bonds | -0.46 | -0.45 | -0.24 | -0.34 |
| 12M Repo GC | -0.57 | -0.58 | -0.41 | -0.45 |
| Deposit rate non fin corp | -0.32 | 0.04 | 0.12 | -0.21 |
| ECB PELTRO | -0.25 | -0.25 | -0.25 | -0.25 |
| Avg rate market funding | -0.27 | -0.26 | -0.07 | -0.17 |
| Difference vs TLTRO 3.5 rate in bp | 10 | 11 | 30 | 21 |
| Cost difference | | | | |
| EUR bn | 0.48 | 0.36 | 0.43 | 0.14 |
| % of 2019 NII | 1.5% | 0.5% | 1.4% | 0.2% |
| <i>For reference:</i> | | | | |
| Avg rate market funding in Jun 2020 (*) | -0.07 | -0.10 | 0.29 | 0.13 |
| Avg TLTRO 3.4 rate % (*) | -0.42 | -0.42 | -0.42 | -0.42 |
| Avg rate difference in bp | 34 | 31 | 71 | 54 |

Note: (*) the rate is a simple average of min and max rates. Min and max rate are an average over the 3 year maturity.
Source: ECB, Bloomberg, Intesa Sanpaolo

Recent ECB measures has been aimed to increase the disposable collateral

- The package of measures taken last April by the ECB in relation to the collateral framework aims to ensure that banks have sufficient collateral at their disposal:
 - ECB eased the conditions for the use of credit claims as collateral in particular through the potential expansion of the additional credit claims (ACCs) frameworks.
 - ECB adopted a general reduction of collateral valuation haircuts.
- The ACC framework provides the possibility to National Central Banks to enlarge the scope of eligible credit claims for counterparties in their jurisdictions. This includes the possibility to accept loans with lower credit quality, loans to other types of debtors, not accepted in the ECB's general framework, and foreign-currency loans.

Pledged collateral at the ECB by asset class (Eur Bn)



- Eligible marketable assets amounts to 15.2 trillion euro in 2Q20.
- **At the end of 2Q20, 672 billion euros of non-marketable credit claims were posted as collateral for Eurosystem operations, an increase of 287 billions with respect to 1Q20.**

Source: ECB, Bloomberg, Intesa Sanpaolo

ECB financing has a relevant impact on NSFR

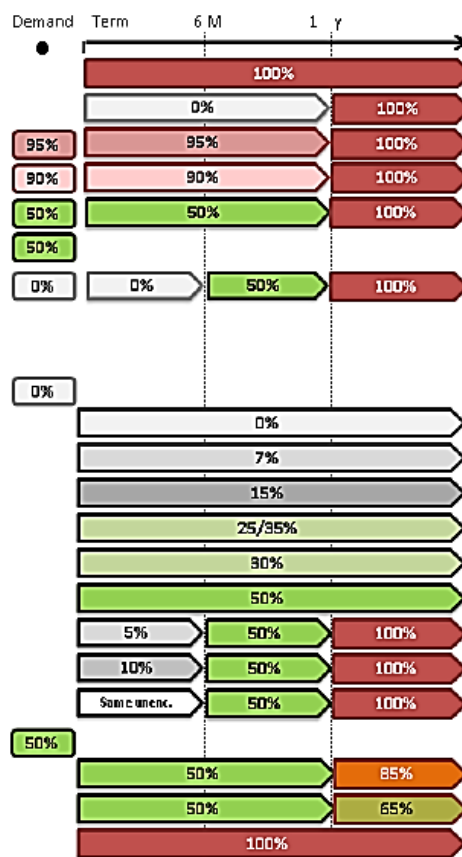
$$\text{NSFR} = \frac{\text{ASF (Available Stable Funding)}}{\text{RSF (Required Stable Funding)}} \geq 100\%$$

Available Stable Funding (ASF)

| | | | |
|-----------------------------------------------------------------------------------------------------------|-----|-----|------|
| Regulatory Capital (excl. Tier 2 Instruments) | | | |
| Tier 2 Instruments | | | |
| Deposits from stable Retail / SME | 95% | 95% | 100% |
| Deposits from less Stable Retail / SME | 90% | 90% | 100% |
| Deposits from Non Financial Customers / Government Entities / Multilateral and National Development Banks | 50% | 50% | 100% |
| Operational Deposits | 50% | | |
| Deposits from Financial Institutions and Central Banks | 0% | 0% | 50% |

Required Stable Funding (RSF)

| | | | |
|-----------------------------------------------------------------------|-----|-----------|------|
| Cash, Central Bank Reserves | 0% | | |
| Unencumbered L1 HQLA (excl. eHQ CB) | | 0% | |
| Unencumbered L1 eHQ Covered Bonds | | 7% | |
| Unencumbered L2A HQLA | | 15% | |
| Unencumbered L2B Securitizations | | 25/35% | |
| Unencumbered HQ Covered Bonds | | 90% | |
| Unencumbered L2B HQLA | | 50% | |
| Unencumbered loans to FI secured against L1 Assets, excl. eHQ CB | | 5% | 50% |
| Unencumbered loans to financial Institutions; trade finance | | 10% | 50% |
| Encumbered HQLA (by encumbrance period) | | Same enc. | 50% |
| Deposit held at other Financial Institutions for operational purposes | 50% | | |
| Loans to Non Financial Customers / Government Entities | | 50% | 85% |
| Unencumbered Loans <=35% RWAs | | 50% | 65% |
| Non Performing Loans | | | 100% |



The **ASF** is calculated multiplying the asset and liabilities items by ASF coefficients.

Extraordinary ECB financings are weighted 100% if longer than one year, 50% is between one year and six months, and zero for durations shorter than six months.

The **RSF** is calculated by multiplying each asset item by RSF coefficients.

The collateral used in extraordinary operations with the central bank receives extraordinary treatment: **reduced coefficients may be applied to assets used as collateral for TLTRO operations (encumbered), no lower than the corresponding coefficients for the same types of assets not used (unencumbered).**

European rules as laid out by the BCBS have not yet been embraced, therefore the application of the factors is discretionary.

TLTRO III: expected take up at the next 3 operations

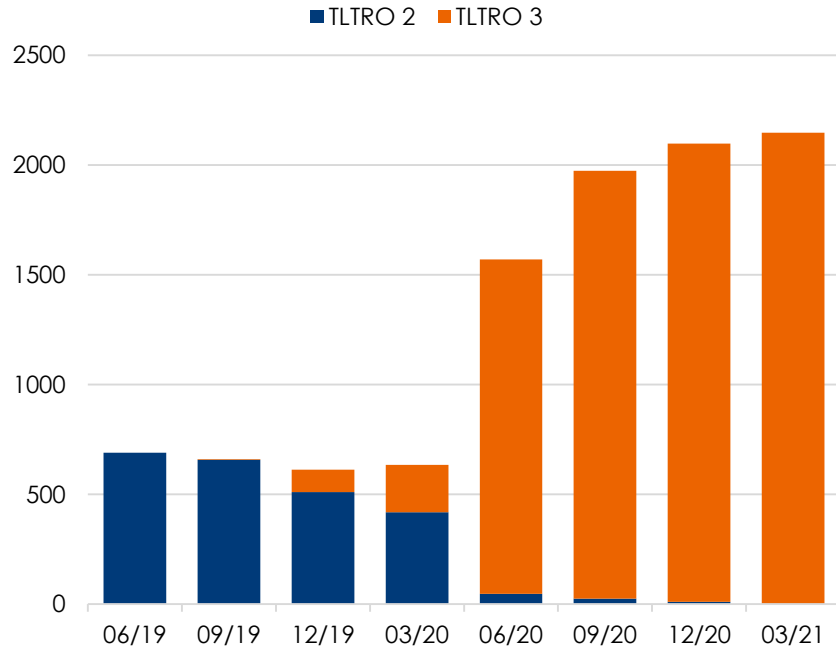
- Our main case scenario implies a gross take up at TLTRO operations close to 2.14 trillion euros.

| | IT | ES | FR | DE | NE | BE | IE | PT | OTHERS | TOTAL Eurozone |
|--------------------------------------------------------------------|------------|------------|------------|------------|------------|-----------|-----------|-----------|------------|-------------------|
| Eligible loans 28/02/2019 | 935 | 638 | 1,329 | 1,511 | 399 | 168 | 78 | 235 | 490 | 5,784 |
| Max take up = 50% of elig. Loans | 468 | 319 | 665 | 755 | 200 | 84 | 39 | 118 | 245 | 2,892 |
| ECB Longer-term refin.operations 3 Jul 20 | 349 | 256 | 350 | 283 | 112 | 74 | 4 | 31 | 127 | 1,586 |
| of which: | | | | | | | | | | |
| - TLTRO II funds outstanding (ISP estimate) | 16 | 9 | 6 | 6 | 4 | 2 | 1 | 2 | - | 46 |
| - TLTRO III funds outstanding (ISP estimate) | 319 | 245 | 344 | 277 | 108 | 72 | 3 | 29 | 127 | 1,524 |
| - PELTROs | 15 | 1 | - | - | - | - | - | - | - | 16 |
| Expected long-term ref.operations outstanding (31/3/21) | 454 | 317 | 494 | 447 | 153 | 84 | 11 | 49 | 138 | 2,147 |
| <i>Change from current amount</i> | 105 | 62 | 144 | 164 | 41 | 10 | 7 | 18 | 11 | 561 |

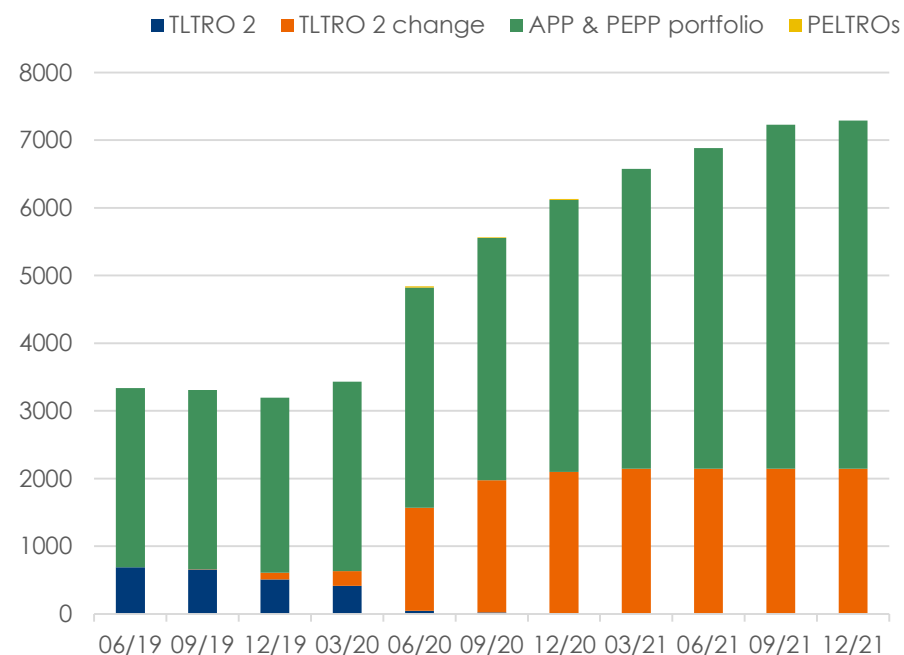
Eurosystem assets are expected to increase to 7 trillion euros by the end of 2021

- Eurosystem's long-term refinancing operations are expected to grow to 2.1 trillion euros in 1Q21.
- The ECB securities portfolios is expected to reach 5.1 trillion euros (1.8trn PEPP and 3.3 trn APP).

Main case scenario
Outstanding TLTROs (EUR Bn)



Main case scenario
Eurosystem assets (EUR Bn)

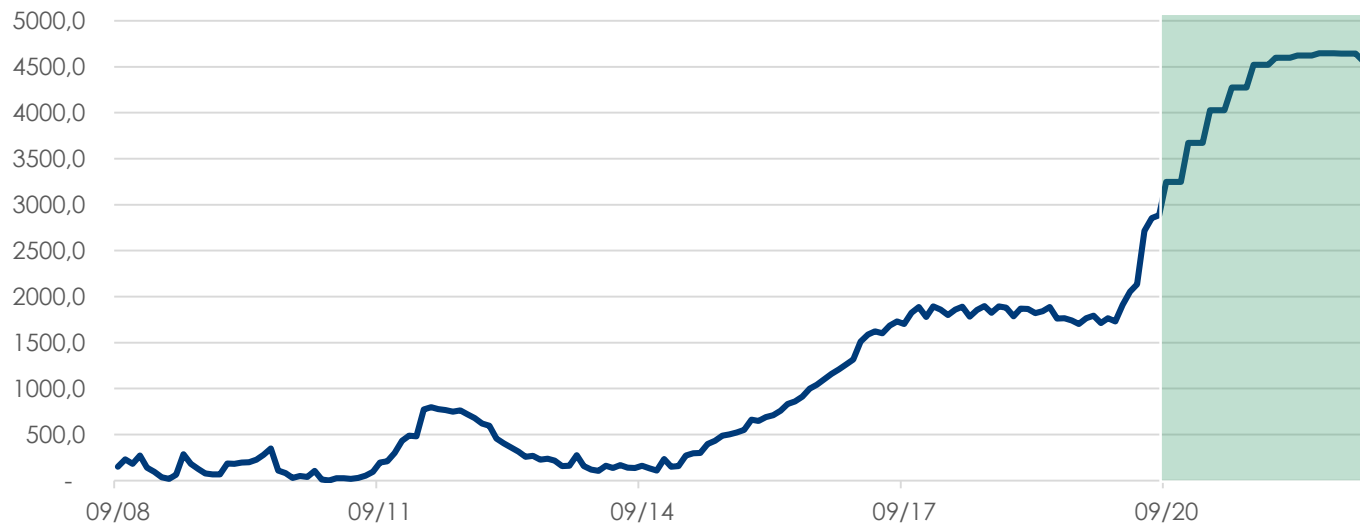


Source: ECB, Bloomberg, Intesa Sanpaolo

Excess liquidity will skyrocket above 4 trillion euros

- ECB refinancing operations are in normal times the main liquidity supply instrument for a central bank. With its QE programme the ECB forces liquidity into the system, as assets are acquired by the central bank against an increase in banks' reserves holdings at the CB. **Latest figure for August 18, 2020 shows excess liquidity at just 2.88 trillion euros.**
- If Eurozone banks net take up at TLTRO III and ECB bond purchases evolves in accordance with our expectations, **excess reserves will increase to an historical high of 4.5 trillion euros at the end of 2021.**

Expected excess liquidity of the Eurosystem (EUR Bn)

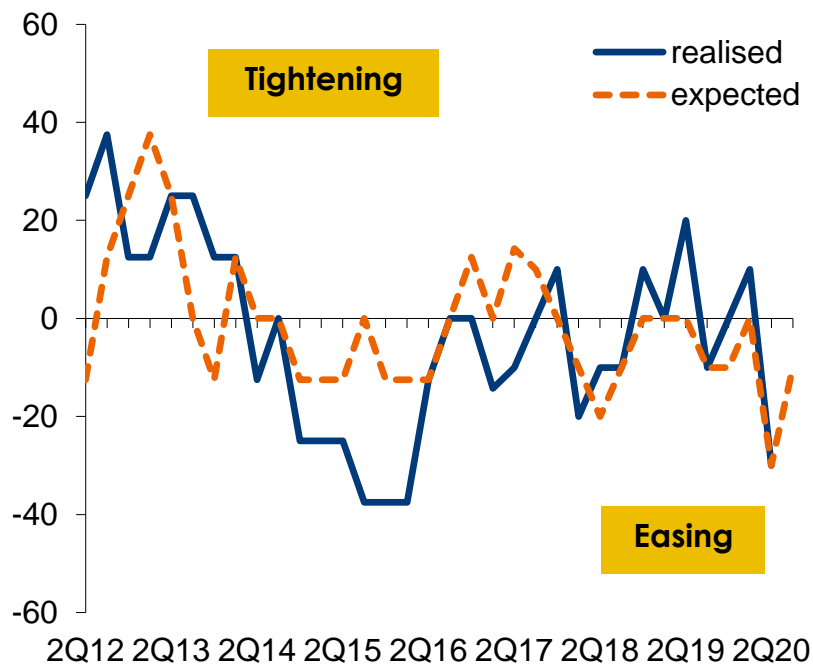


- Source: ECB, Bloomberg, Intesa Sanpaolo

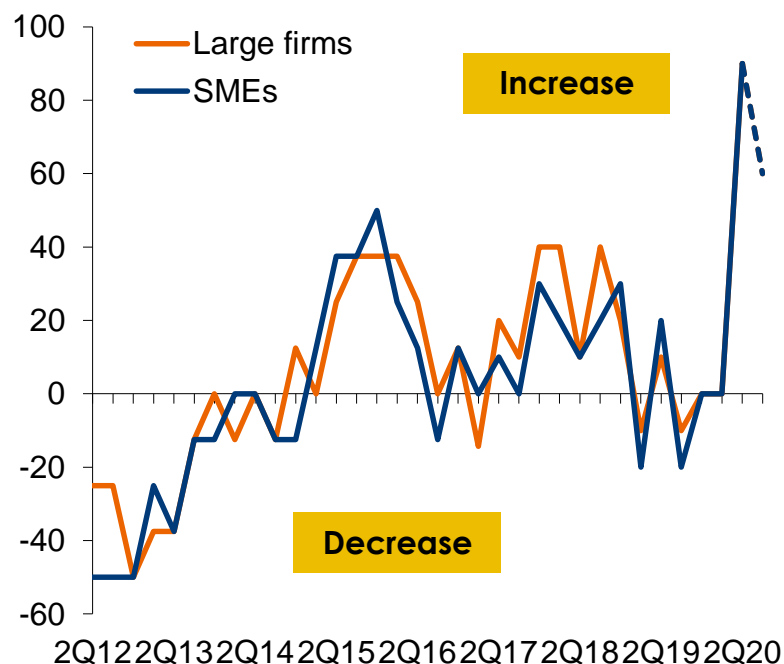
Italian Banks eased their credit standards for corporate loans in 2Q, while demand reached a record high

Italian banks reported an **easing in standards applied to business lending in the 2nd quarter 2020**. **Demand for loans increased**, both from large firms and SMEs, **reaching the highest level ever**. Expectations for the third quarter are of a strong demand for loans.

Change in standards applied to business lending
(net %: tightening – easing)



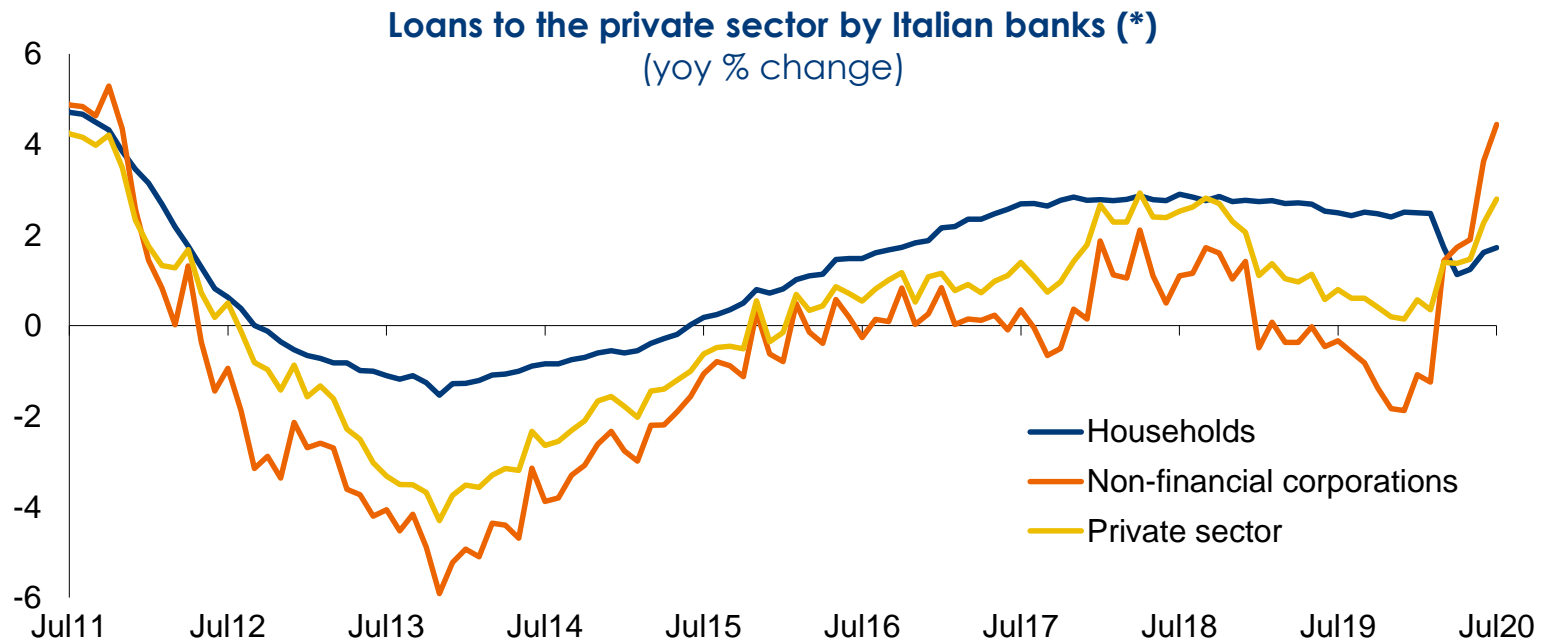
Business demand for loans and credit lines by firm size (*) (net %: increase – decrease)



(*) The dotted part refers to expectations for the following quarter
Source: ECB, Euro Area Bank Lending Survey (BLS)

Policy measures to support liquidity and credit are driving¹² a rebound in loans to businesses in Italy

- Background: until February, loans to households maintained a solid growth of 2.5% yoy while lending to businesses disappointed, down by -1.2%.
- Since the COVID-19 outbreak, **upturn in loans to non-financial companies**, to 4.4% yoy in July, from +1.4% in March and -1.9% at end-2019.
- **Slowdown in loans to households**, to +1.1% yoy in April, mainly due to consumer credit, then back up to 1.7% in June-July following a recover in loans to family businesses.

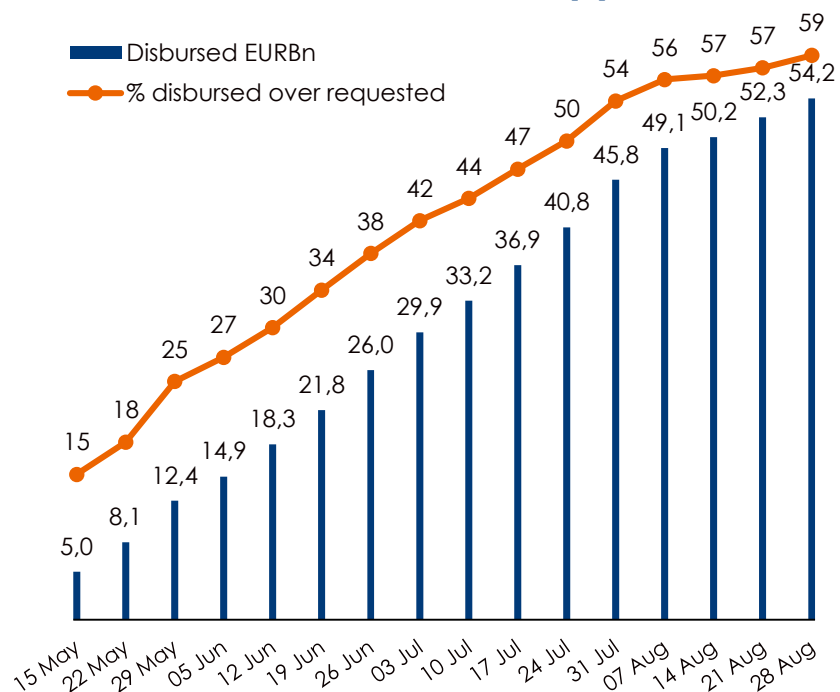


Note: (*) data adjusted to take into account securitisation and net of central counterparties.
Source: Bank of Italy

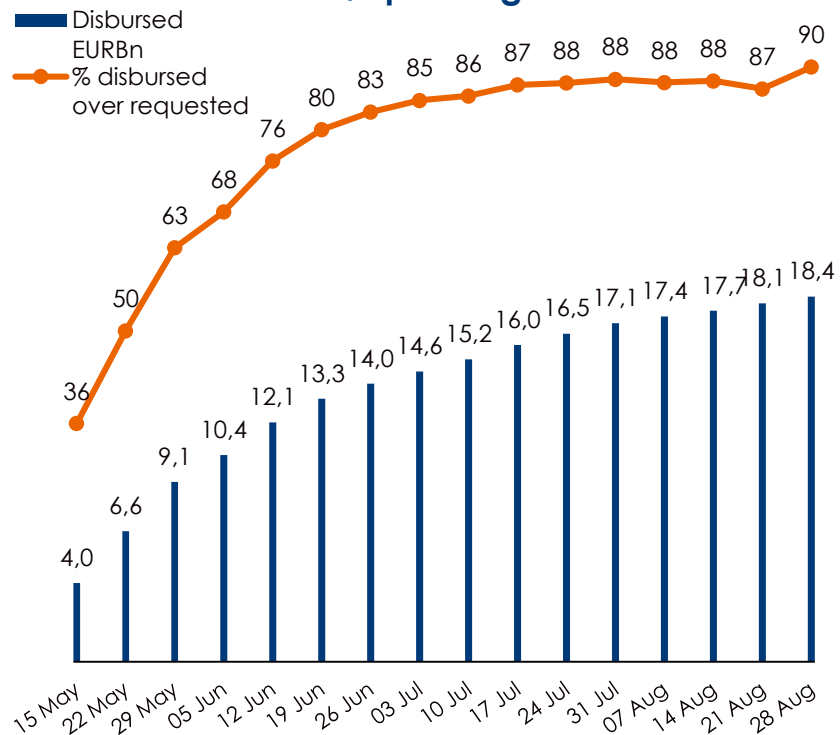
Italian banks are providing key support to businesses through moratoriums and loans with a public guarantee

- Despite some initial difficulties, **public guaranteed loans are steadily increasing**. As of end-August, EUR **54Bn** of loans backed by the **SME Guarantee Fund** were **disbursed**, of which 18.4Bn of fully guaranteed loans of up to 30K (90% of requested).
- Also for **loans to larger companies backed by SACE guarantees**, amounts granted have become significant, to EUR 13Bn

Granted loans backed by the SME Guarantee Fund pursuant to art. 13 of the "Liquidity" Decree Law 23/2020 (1)



Of which: granted loans of up to EUR 30 thousand with a 100% public guarantee

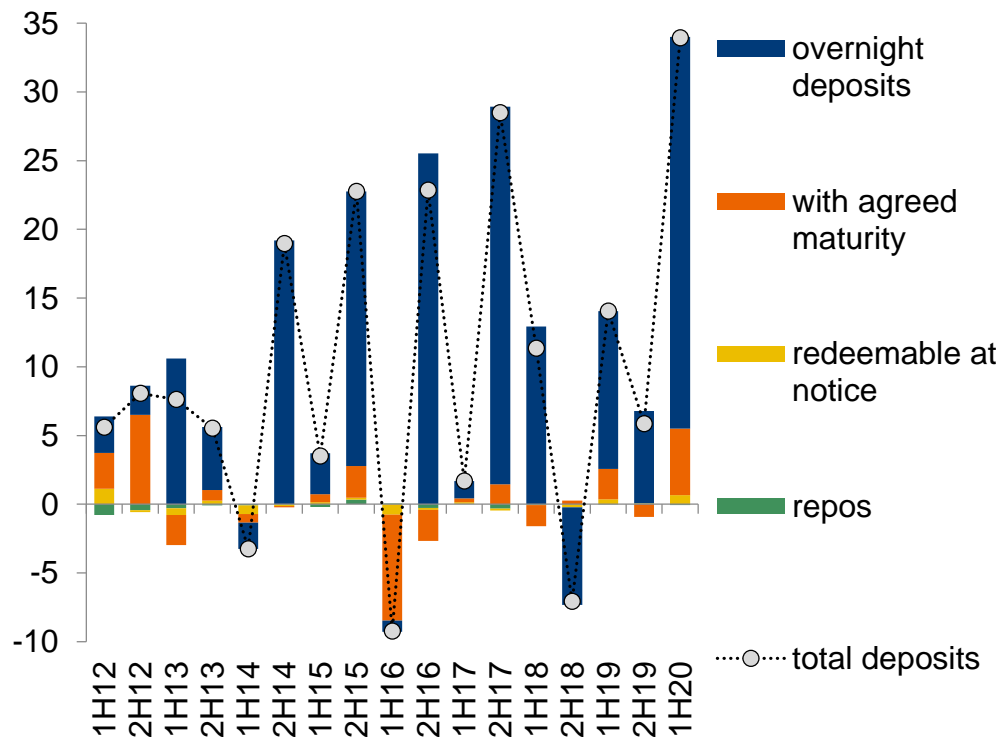


Note: (1) Bank of Italy estimates based on a sample of banks that disburse slightly less than 90% of loans to businesses.

Source: Bank of Italy and Intesa Sanpaolo Research Department calculations

Considerable increase in deposits of the corporate sector

Net flows towards deposits from non-financial corporations in Italy, half-yearly figures (EURBn)

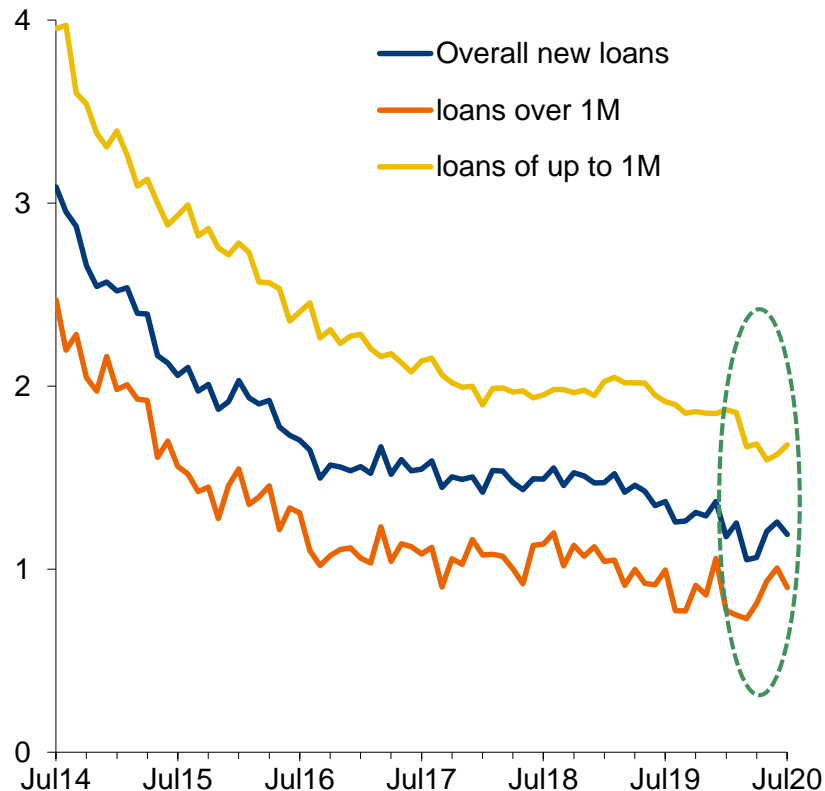


Source: ECB and Intesa Sanpaolo Research Department calculations

- From the beginning of 2020 until July, EUR 49Bn flowed into bank accounts of Italian non-financial firms, compared to just 5.6Bn in the same period of 2019. The increase was driven by inflows to overnight deposits, whose growth accelerated to +21% yoy in July.
- Business deposits are fuelled by the increase in loans,** consequent to access to the temporary measures activated to support liquidity and credit.
- This adds to the growth already achieved in previous years. Since 2012, deposits from non-financial corporations have shown a **total inflow of 186Bn** (until July 2020) **to an outstanding amount of 356Bn.**

Lending rates remain at lows for loans to non-financial corporations 15

Rates on new loans of up to EUR 1M to Italian non-financial corporations (%)



Source: Bank of Italy

- The 1H2020 saw new record lows for the average rate on the flow of loans to Italian non-financial corporations, down below 1.1% in March-April, to recover slightly in the following two months to 1.26% in June and down again in July to 1.19%, from 1.37% in Dec-2019.
- The **sharp reduction** recorded in March was **mainly driven by the rate on loans of up to 1M**. The decrease continued in May to the all-time low of 1.60%, followed by 1.68% in July.
- Also the rate on loans of over 1M was at its all-time low in March, of 0.73%, to go back up in 2Q, to 1.01% in June, and down again in July to 0.90%.

Important Information

Analyst Certification

The financial analysts who prepared this report, and whose names and roles appear on the first page, certify that:

- (1) The views expressed on companies mentioned herein accurately reflect independent, fair and balanced personal views;
- (2) No direct or indirect compensation has been or will be received in exchange for any views expressed.

Specific disclosures

The analysts who prepared this report do not receive bonuses, salaries, or any other form of compensation that is based upon specific investment banking transactions.

Important Disclosures

This research has been prepared by Intesa Sanpaolo S.p.A. and distributed by Intesa Sanpaolo SpA-London Branch (a member of the London Stock Exchange) and Intesa Sanpaolo IMI Securities Corp (a member of the NYSE and FINRA). Intesa Sanpaolo S.p.A. accepts full responsibility for the contents of this report. Please also note that Intesa Sanpaolo S.p.A. reserves the right to issue this document to its own clients. Intesa Sanpaolo S.p.A. is authorised by the Banca d'Italia and is regulated by the FCA in the conduct of designated investment business in the UK and by the SEC for the conduct of US business.

Opinions and estimates in this research are as at the date of this material and are subject to change without notice to the recipient. Information and opinions have been obtained from sources believed to be reliable, but no representation or warranty is made as to their accuracy or correctness.

Past performance is not a guarantee of future results.

The investments and strategies discussed in this research may not be suitable for all investors. If you are in any doubt you should consult your investment advisor.

This report has been prepared solely for information purposes and is not intended as an offer or solicitation with respect to the purchase or sale of any financial products. It should not be regarded as a substitute for the exercise of the recipient's own judgement.

No Intesa Sanpaolo S.p.A. entity accepts any liability whatsoever for any direct, consequential or indirect loss arising from any use of material contained in this report.

This document may only be reproduced or published with the name of Intesa Sanpaolo S.p.A..

This document has been prepared and issued for, and thereof is intended for use by, MiFID II eligible counterparties/professional clients (other than elective professional clients) or otherwise by market professionals or institutional investors only, who are financially sophisticated and capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies.

Therefore, such materials may not be suitable for all investors and recipients are urged to seek the advice of their independent financial advisor for any necessary explanation of the contents thereof.

Person and residents in the UK: This document is not for distribution in the United Kingdom to persons who would be defined as private customers under rules of the FCA.

US persons: This document is intended for distribution in the United States only to Major US Institutional Investors as defined in SEC Rule 15a-6. US Customers wishing to effect a transaction should do so only by contacting a representative at Intesa Sanpaolo IMI Securities Corp. in the US (see contact details below).

Intesa Sanpaolo S.p.A. issues and circulates research to Major Institutional Investors in the USA only through Intesa Sanpaolo IMI Securities Corp., 1 William Street, New York, NY 10004, USA, Tel: (1) 212 326 1199.

.Inducements in relation to research

Pursuant to the provisions of Delegated Directive (EU) 2017/593, this document can be qualified as an acceptable minor non-monetary benefit as it is:

- macro-economic analysis or Fixed Income, Currencies and Commodities material made openly available to the general public on the Bank's website - Q&A on Investor Protection topics - ESMA 35-43-349, Question 8 & 9.

Method of distribution

This document is for the exclusive use of the recipient with whom it is shared by Intesa Sanpaolo and may not be reproduced, redistributed, directly or indirectly, to third parties or published, in whole or in part, for any reason, without prior consent expressed by Intesa Sanpaolo.

The copyright and all other intellectual property rights on the data, information, opinions and assessments referred to in this information document are the exclusive domain of the Intesa Sanpaolo banking group, unless otherwise indicated. Such data, information, opinions and assessments cannot be the subject of further distribution or reproduction in any form and using any technique, even partially, except with express written consent by Intesa Sanpaolo.

Persons who receive this document are obliged to comply with the above indications.

Valuation Methodology

Trading Ideas are based on the market's expectations, investors' positioning and technical, quantitative or qualitative aspects. They take into account the key macro and market events and to what extent they have already been discounted in yields and/or market spreads. They are also based on events which are expected to affect the market trend in terms of yields and/or spreads in the short-medium term. The Trading Ideas may refer to both cash and derivative instruments and indicate a precise target or yield range or a yield spread between different market curves or different maturities on the same curve. The relative valuations may be in terms of yield, asset swap spreads or benchmark spreads.

Coverage Policy And Frequency Of Research Reports

Intesa Sanpaolo S.p.A. trading ideas are made in both a very short time horizon (the current day or subsequent days) or in a horizon ranging from one week to three months, in conjunction with any exceptional event that affects the issuer's operations.

Disclosure of potential conflicts of interest

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, management and control model" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage <https://group.intesasnpaolo.com/en/governance/leg-decree-231-2001>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the FCA Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A., webpage <https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures>. This documentation is available to the recipient of this research upon making a written request to the Compliance Department, Intesa Sanpaolo S.p.A., Via Hoepli, 10 – 20121 Milan – Italy.

Furthermore, in accordance with the aforesaid regulations, the disclosures of the Intesa Sanpaolo Banking Group's interests and conflicts of interest are available through webpage <https://group.intesasnpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest>. The conflicts of interest published on the internet site are updated to at least the day before the publishing date of this report.

We highlight that disclosures are also available to the recipient of this report upon making a written request to Intesa Sanpaolo S.p.A. – Macroeconomic and Fixed Income Research, Via Romagnosi, 5 - 20121 Milan - Italy.

Intesa Sanpaolo Spa acts as market maker in the wholesale markets for the government securities of the main European countries and also acts as Government Bond Specialist, or in comparable roles, for the government securities issued by the Republic of Italy, by the Federal Republic of Germany, by the Hellenic Republic, by the European Stability Mechanism and by the European Financial Stability Facility.

Report prepared by:

Maria Cristina Lege,

Resp. Money Market e Pagamenti, Direzione Centrale Tesoreria e Finanza di Gruppo
Group Chief Financial Officer Area