Italy and TLTROs
State of play

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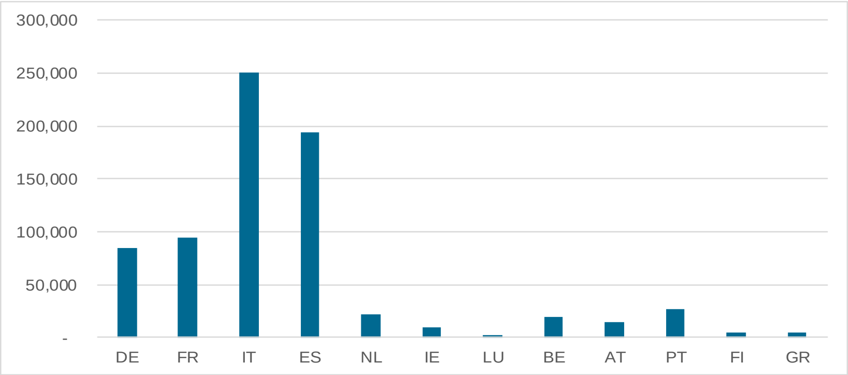
Liquidity risk tied to TLTRO II reimbursements /1

The decision of the European banks to repay the loans obtained under the TLTRO II programme is fundamental for the trend of liquidity in the Eurozone, as the TLTRO was worth in total 740 bn/eur, around 16% of the Eurosystem's assets.

TLTRO II: allotted funds by country (EUR Bn, estimates)



Fonte: Bloomberg, Intesa Sanpaolo

TLTRO II: total allotted funds by tranches (EUR Bn, estimates)

TLTRO II	Settlement	Maturity	First voluntary repayment	Outstanding
1	29/06/2016	24/06/2020	27/06/2018	399
2	28/09/2016	30/09/2020	26/09/2018	45
3	21/12/2016	16/12/2020	19/12/2018	62
4	29/03/2017	24/03/2021	27/03/2019	234
Total				**740**

Fonte: Bloomberg, Intesa Sanpaolo

There are essentially two main reasons behind the banks' decision to opt for early repayment of the funds borrowed:

1. The opportunity cost, calculated as the difference between the yields of alternative financing instruments and the rate at which individual banks borrowed money based on the trend of credit. The trend of lending to businesses and households (excluding residential mortgages), monitored by means of aggregate data by country as published by the ECB between the end of January 2016 and the end of January 2018, seems to indicate that core countries, with the exception of the Netherlands, have obtained the minimum rate on the TLTRO, i.e. -0.4%, whereas the aggregate trend of loans was not positive enough for peripheral countries to cross the threshold required to obtain application of the deposit rate, although in many cases individual banks are likely to have achieved the benchmark.

2. Regulatory constraints, tied to the use of liquidity to meet LCR and NSFR parameters. TLTRO 2 operations hold a weight of 100% in calculating Avaliable Stable Funding as long as duration is longer than one year, then their weight drops to 50% up to six months, and to zero subsequently.

Liquidity risk tied to TLTRO II reimbursements /2

- While for Italian and Spanish banks the comparison with financing rates on the market is unfavorable, for core country banks the option of making early repo repayments and tapping the markets could be useful with a view of bringing forward the first repayment to June 2020.
- The management of TLTRO repayments will be an important factor in any case for all Eurozone banks, and in particular for peripheral country banks.
- On this front, Moody's recently indicated that the dependence of Italian banks on ECB financing is one of the major factors in assessing Italy's country risk.

Italian banks' TLTRO II borrowing (EUR Bn, estimates)

	Gross takeup	Repayment of TLTRO I	Net takeup
Jun 2016	139	110	29
Sep 2016	17	1	16
Dec 2016	18	0	18
Mar 2017	67	2	65
Total	241	113	128

Fonte: Banca d'Italia, Intesa Sanpaolo

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