The SSM

Meeting with the practitioners

Rome, 7° March 2017

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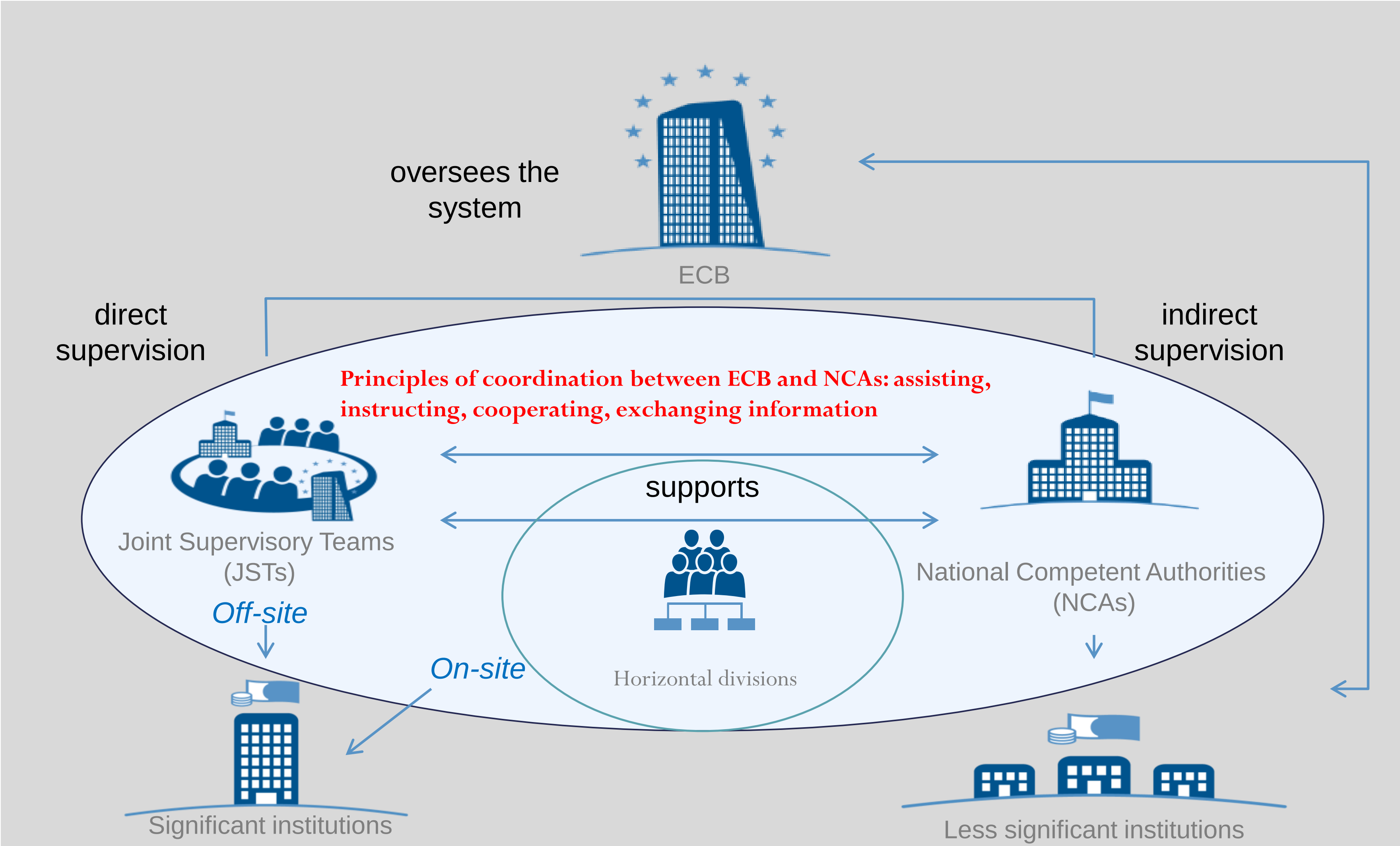
An integrated system of national supervisors and ECB ...



Source: ECB WEBSITE

How? The architecture: SIs, LSIs, JSTs and decision making

Allocation of tasks

- **DGs-MS 1 and 2**: conduct of day-to-day supervision of Significant Institutions **via JSTs**
- **DG-MS 3**: oversight of the supervision of Less Significant Institutions performed by NCAs
- **DG-MS 4**: ensure consistency, identification of risks and promote best practices **via experts' networks between NCAs and ECB**

- **DGs-MS 1** : conduct of day-to-day supervision of Significant Institutions **via JSTs**
- **DG-MS 2**: conduct of supervision of Less Significant Institutions
- **DG-Regulation**: ensure consistency, early identification of risks and promote best practices **via experts' networks between NCAs and ECB**

ECB

Direct Supervision:

Micro-prudential Supervision I (208 FTEs)

Joint Supervisory Teams

± 30 credit institutions

Micro-prudential Supervision II (195 FTEs)

Joint Supervisory Teams

± 90 credit institutions

Indirect Supervision

Micro-prudential Supervision III (80 FTEs)

- Supervisory Oversight & NCA Relations
- Institutional & Sectoral Oversight
- Analysis & Methodological Support

Horizontal Functions & Specialised Expertise

Micro-prudential Supervision IV (253 FTEs)

- Authorisation
- Centralised on-site Inspections
- Methodology & Standards Development
- Others

Banca d'Italia

Micro-prudential Supervision I (127 FTEs)

15 Significant Italian Banks and ± 100 Subsidiaries and Branches of foreign Banks

Micro-prudential Supervision II (71 FTEs)

± 33 branches

630 Less Significant Italian Banks

Regulation and Macro-prudential Analysis (90 FTE)

- Authorisation
- Methodology & Standards Development
- Regulation 1
- Regulation 1I
- Others

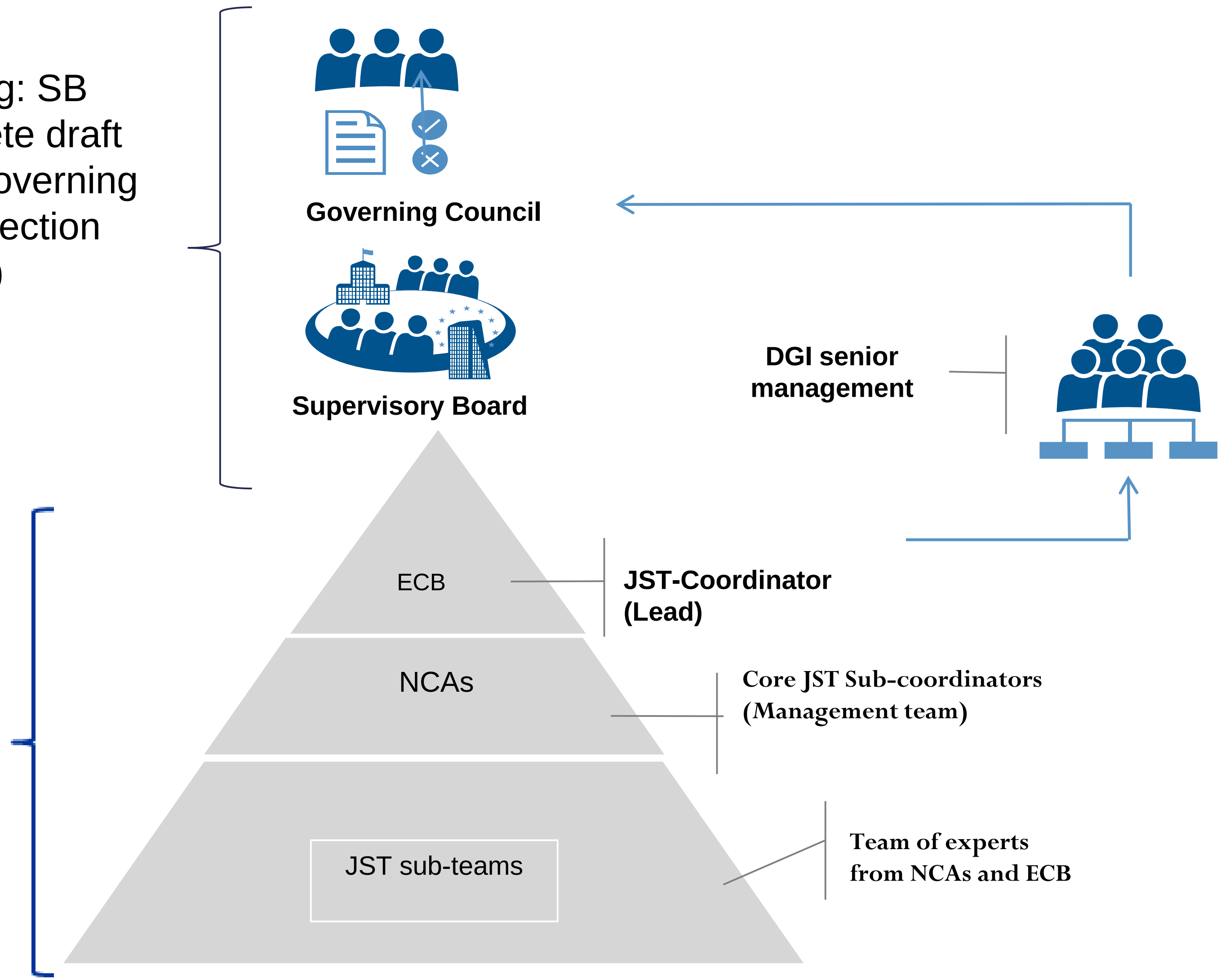
On Site Inspection (186 FTEs)

- Internal Model Validation
- Inspection Team
- Planning

Source: ECB and BOI WEBSITES

The Joint Supervisory Teams (JSTs)

Decision making: SB proposing complete draft decisions to the Governing Council (non objection procedure)



Source: ECB WEBSITE

... focused on prudential supervision

Responsibility of the ECB for institutions within the euro area	No responsibility of the ECB
Credit institutions, (mixed) financial holding companies	Supervision of insurance companies, factoring- and leasing companies
Micro-prudential supervision	Asset management companies and payment service providers
Early prudential intervention	Resolution of banks
Granting / withdrawal of authorizations and acquisitions of qualifying holdings	Consumer protection
	Money-laundering, terrorism financing

Source: ECB WEBSITE

Business models and profitability drivers

- Business models and profitability drivers continue to be a priority area in 2017, especially in view of protracted ultra-low/negative interest rates.
- European banking supervision will therefore continue to drive forward its thematic review of banks' business models and profitability drivers.
- A further point of supervisory attention will be the possible repercussions of the UK's referendum on EU membership for supervised banks and their business models.
- In addition, European banking supervision will explore potential risks for banks' business models emanating from the emergence of "FinTech" and non-bank competition.

Source: Ms Nouy speech (01.25.2017)

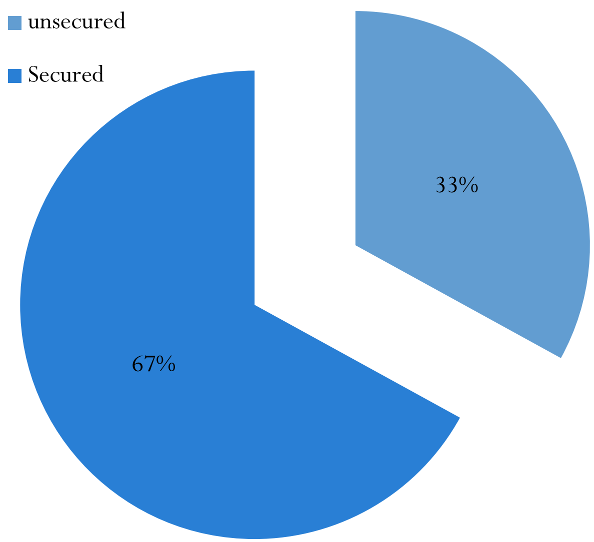
Non-performing loans (NPLs) a key issue in some Member States: draft guidance to bank was submitted for public consultation. Focused on:

- Need to define strategy on NPL reduction targets
- Set up of dedicated NPL workout units
- Compliant and prudent NPL recognition
- Sound NPL provisioning and collateral approaches
- Beyond the banks, Member States requested to improve their legal and judicial frameworks in order to facilitate the timely workout of NPLs

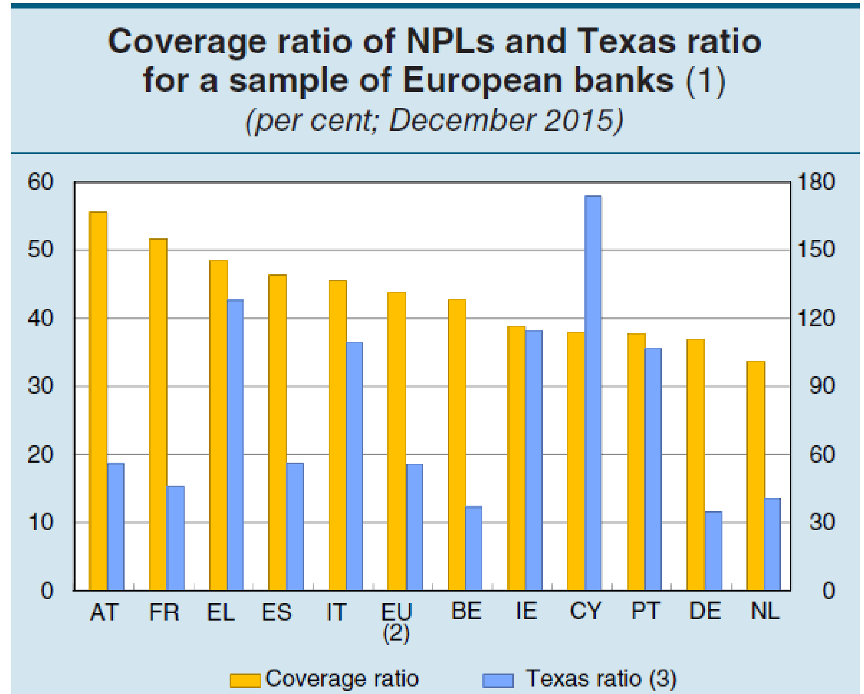
Source: ECB WEBSITE

Asset Quality of the Italian Banks 2/2

Non Performing Loans



Bank loans secured by collateral amount to €160 billion, about 50 per cent of gross non-performing exposures (67 per cent including personal guarantees).
With respect to bad debts, the value of the collateral exceeds the net exposure.



Non-performing loans are slightly greater than the sum of common equity tier 1 capital
and provisions: the Texas ratio (the ratio of gross NPLs to the sum of common equity tier 1 capital and loan loss provisions) though relatively high by international comparison, is actually only slightly more than 100 per cent.

Source: FINANCIAL STABILITY REPORT (BOI)

Root causes of the NPLs in Italy

- Lenght of the recovery procedures
- Lenght and severity of the economic crisis
- Management of the NPLs stock
- Small NPL market

.... NPL burden varies significantly accross the sector

Key indicators of the Italian Banking System by segments

Indicator	SIs	LSIs	*LSIs: BCCs*	*LSIs: non-BCCs*
Total assets (EUR billion)	2,304.0	558.0	*236.0*	*323.0*
Stock of customer loans (EUR billion)	1,517.4	314.3	*133.2*	*181.1*
Stock of non-performing loans (EUR billion)	271.2	63.4	*26.4*	*37.0*
Stock of bad loans (EUR billion)	163.2	37.0	*14.6*	*22.4*
Non-performing loan ratio	17.9%	20.2%	*19.8%*	*20.4%*
Bad loan ratio	10.8%	11.8%	*11.0%*	*12.4%*
Non-performing loan coverage ratio	46.6%	43.6%	*42.3%*	*44.5%*
Bad loan coverage ratio	58.8%	57.6%	*56.1%*	*58.6%*
Loan value adjustments as % of operating income	80.3%	70.8%	*95.5%*	*55.4%*
CET 1 ratio (Basel 3 phased-in)	11.7%	15.5%	*16.3%*	*14.9%*
Total capital ratio (Basel 3 phased-in)	15.1%	16.6%	*16.8%*	*16.5%*
Return on equity (net of goodwill impairments)	2.2%	2.2%	*-0.5%*	*4.6%*
Cost-to-income ratio	67.8%	69.9%	*68.5%*	*70.7%*

Source: EUROPEAN COMMISSION

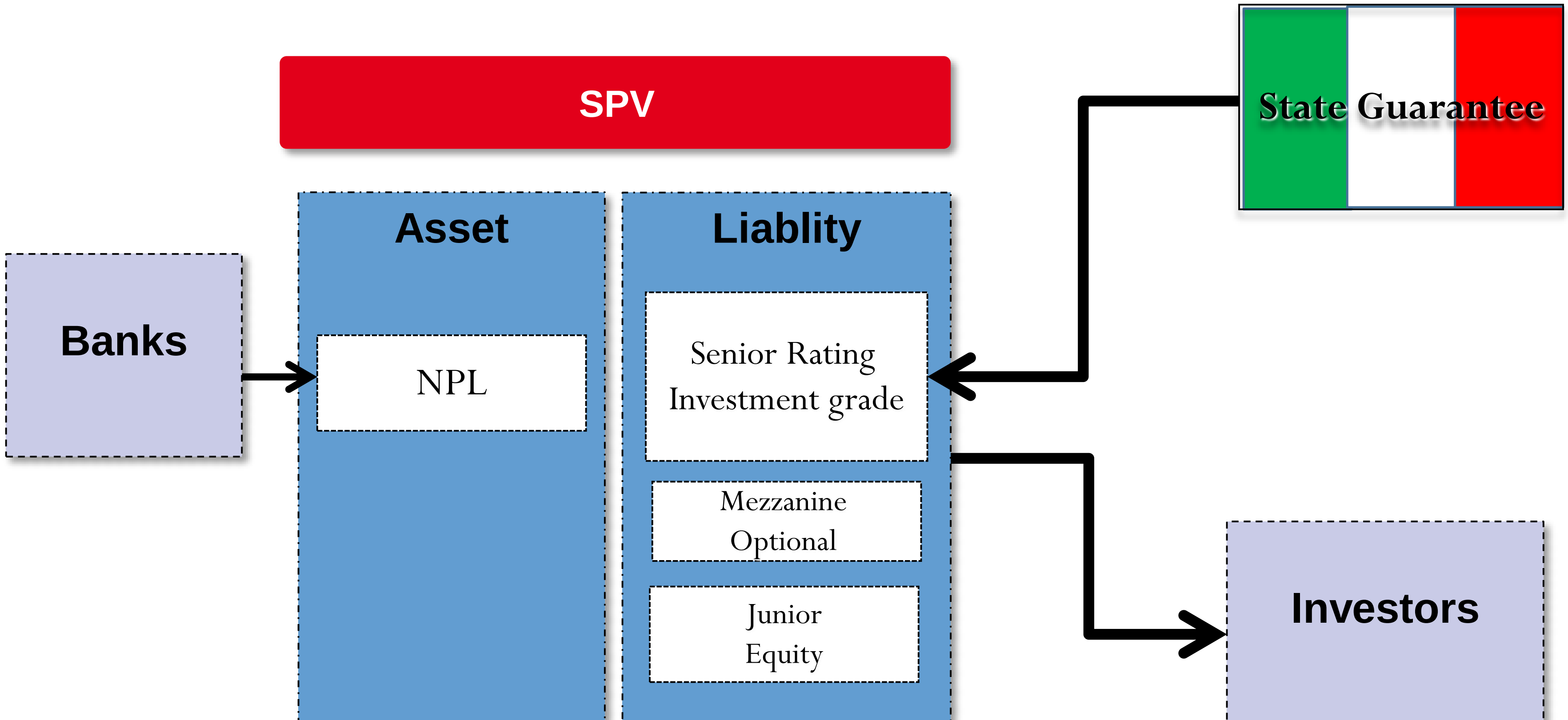
GACS 1/2

On February 2016 the Government has introduced a guarantee for senior tranches of securitized nonperforming loans.

Main Figures:

- Not Mandatory
- Remuneration of Guarantee at Market Prices to the Treasury in order to ensure the state aid-free nature of the scheme.
- Senior tranches of the ABS rated at least Investment Grade
- Guarantee is effective after that half of the junior tranches have been sold.
- The riskiest tranches (i.e. junior and mezzanine) shall not be repaid until the senior tranches guaranteed by the State have been fully repaid.
- Banks will have up to 18 months to access this scheme

GACS 2/2



SOURCE: QUAESTIO CAPITAL MANAGEMENT

Atlante Fund

On 11 April a variety of banks, insurance companies, pension funds and other institutional investors agreed to participate in the launch of the alternative investment fund known as ‘Atlante’, which will be managed by Quaestio Capital Management SGR SpA.

Investment Mandate of Atlante: (i) shares of banks that need to increase their capital in accordance on request of the supervisory authority, and (ii) tranches of bad debt securitizations. Specifically, the investments will concentrate on the riskiest tranches of securitizations (junior and mezzanine), whose market is particularly small

Investors of the Atlante: i) belong to the private sector; ii) don’t affect the financial investment of the fund; iii) should invest up to a minimum of €4 billion.

Source: FINANCIAL STABILITY REPORT (BOI)

Civil Proc.re Code and Bankruptcy Law Reforms

Scope of the reforms

- Improve the legal framework for early intervention, promoting early action and making restructuring more likely.
- Reduce the length of judicial foreclosure.

Direct Benefits for the Borrowers

- the average length of the bankruptcy process should drop from more than 6 to around 3 years in a favorable scenario (around 4-5 in a less favorable one).
- The overall average length of the judicial foreclosures should drop from more than 4 to around 3 years.

Indirect Benefits for the Whole Banking System

The new rules are expected to have important beneficial effects on banks' NPLs (also in terms of bid-ask spread).

Final Scope

Increase lending to the economy.

Thanks for your attention!

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