Deloitte.

Overview on the soundness of the Italian banking system

July 2023

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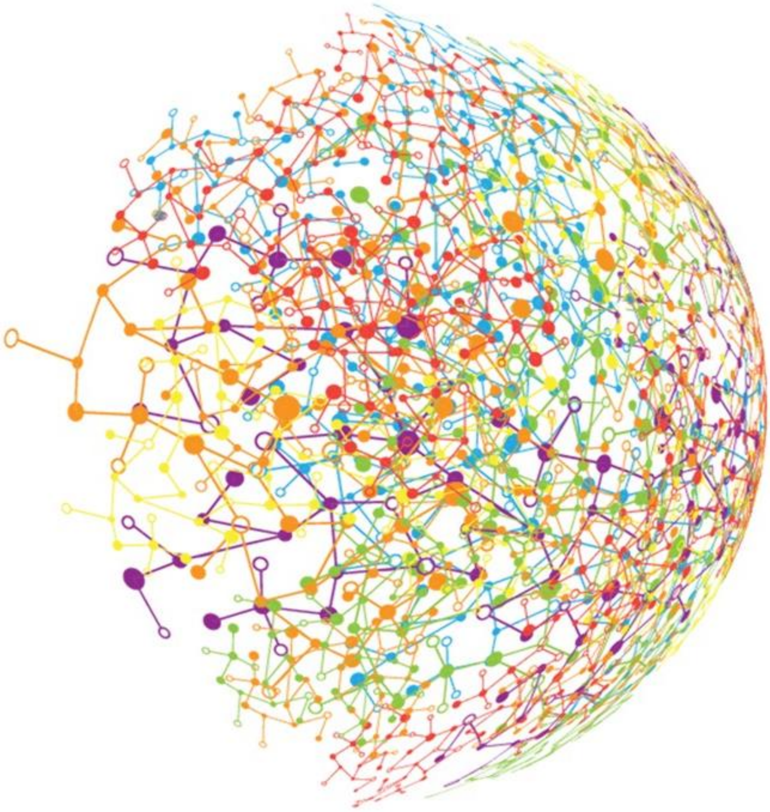


Contents

01 Executive Summary

Despite the challenging macroeconomic scenario, characterized by high inflation and rising interest rates, the Italian banking system appears robust thanks to the measures implemented in recent years.

Indeed, compared to what happened in the US, Italian banks maintain a significant liquidity buffer, which enables them to extend credit to individuals and businesses.

Additionally, in 2023, the capital and credit quality ratios of Italian banks are in line with the European average.

The resilience of Italian banks is further highlighted by the notable growth in the overall performance of their stocks over the past 2-3 years.

02 Lending overview

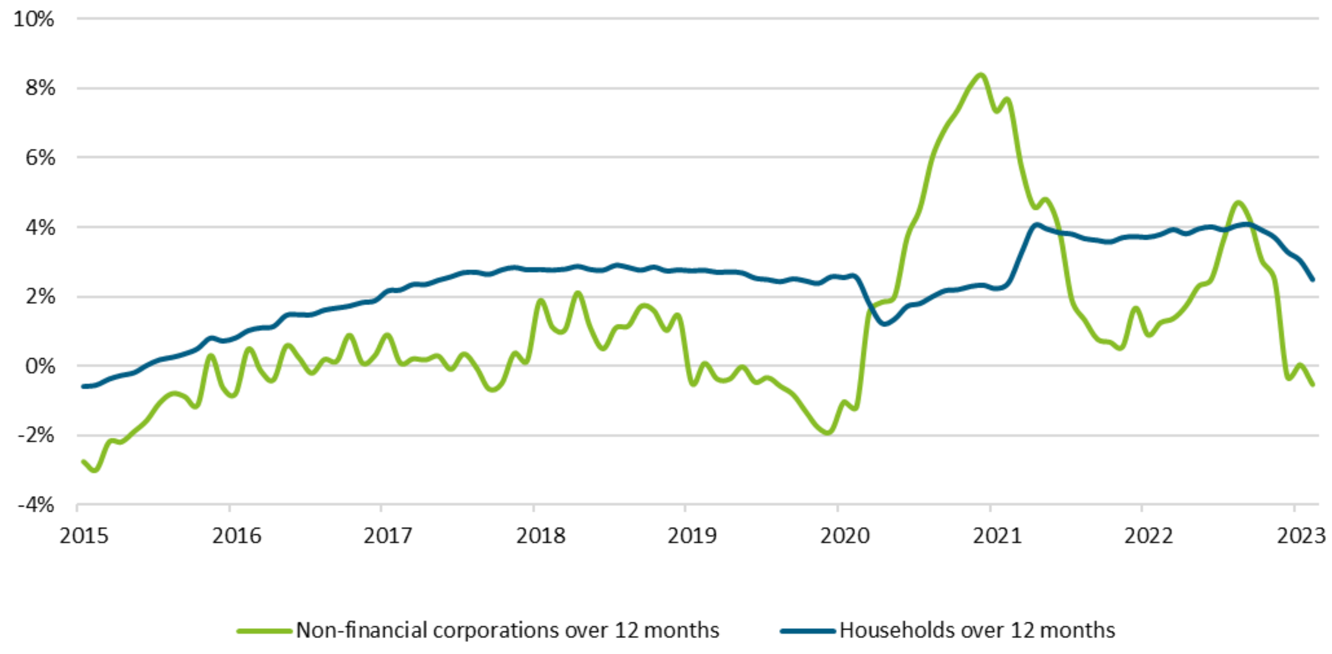
Evolution of lending

The lending to the non-financial private sector decreased by 3.2% (in February, over three months), primarily driven by a sharp decline in lending to firms (-7.5%, down from -3.1% in November). These firms were able to pay off significant amounts of debt by tapping into their liquidity reserves held with banks. The stricter credit standards adopted by Italian banks, coupled with higher interest rates and reduced financing requirements for investment purposes, were the main drivers of this trend.

With regard to the households, the lending growth was almost stagnant (-0.1%, down from 2.3% on a quarterly basis), largely due to a slowdown in home mortgages. While the credit standards for consumer loans remained unchanged, those related to home mortgages became slightly tighter and both sectors experienced a slowdown in demand, mainly due to rising interest rates.

Lending to non-financial corporations decreased as a consequence of stricter credit standards and increased funding costs while lending to households remained nearly unchanged

Figure 1 | Evolution of lending (2015 - 2023)



Source: Elaboration based on "Banca d'Italia, Bollettino Economico 2 / 2023"

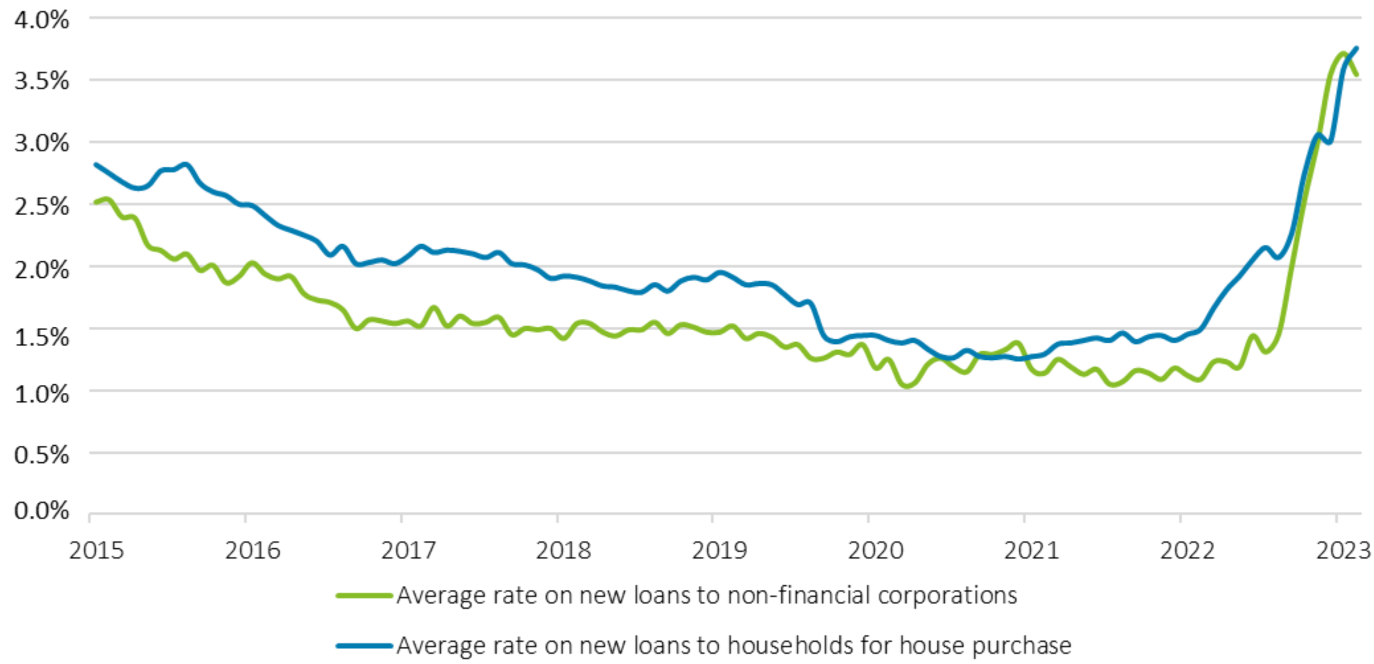
Evolution of interest rates

Due to the measures implemented by the European Central Bank (ECB) to curb inflation, the average interest rate on new bank loans significantly increased. Specifically, interest rates for firms rose by around 250 basis points year-to-date, reaching 3.6% as of 1Q 2023.

The cost of new loans for home purchases by households also increased, reaching 3.8% as of 1Q 2023 (an increase of approximately 230 basis points year-to-date), which reflected higher interest rates on both variable-rate (3.7%) and fixed-rate (3.8%) mortgages.

The deteriorating macroeconomic environment, coupled with the restrictive measures taken by ECB to curb inflation, has resulted in a sudden rise in the average interest rates on new bank loans for both households and corporations

Figure 2 | Evolution of interest rates (2015 - 2023)



Source: Elaboration based on "Banca d'Italia, Bollettino Economico 2 / 2023"

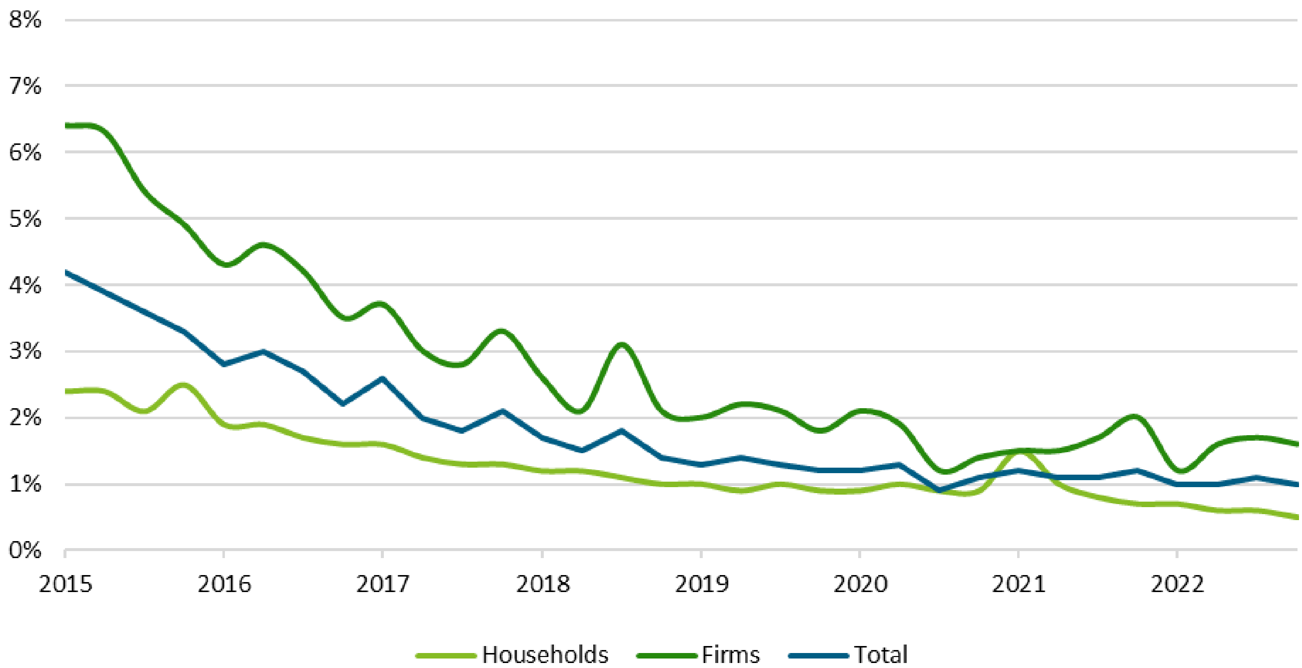
Credit quality

Although the current macroeconomic environment has become increasingly challenging, the proportion of new non-performing exposures (NPEs) to overall loans has remained relatively stable at 1.0%, down from 1.2% at the end of 2021.

This metric for firms has slightly decreased (from 2.0% at the end of 2021 to 1.6%), while it has remained virtually unchanged for households (0.5%), compared to the period of 2020-2021.

Despite the current challenging macroeconomic environment, the rate of new non-performing loans remains low

Figure 3 | Evolution of new NPE rates (2015 - 2022)



Source: Elaboration based on "Banca d'Italia, Bollettino Economico 2 / 2023"

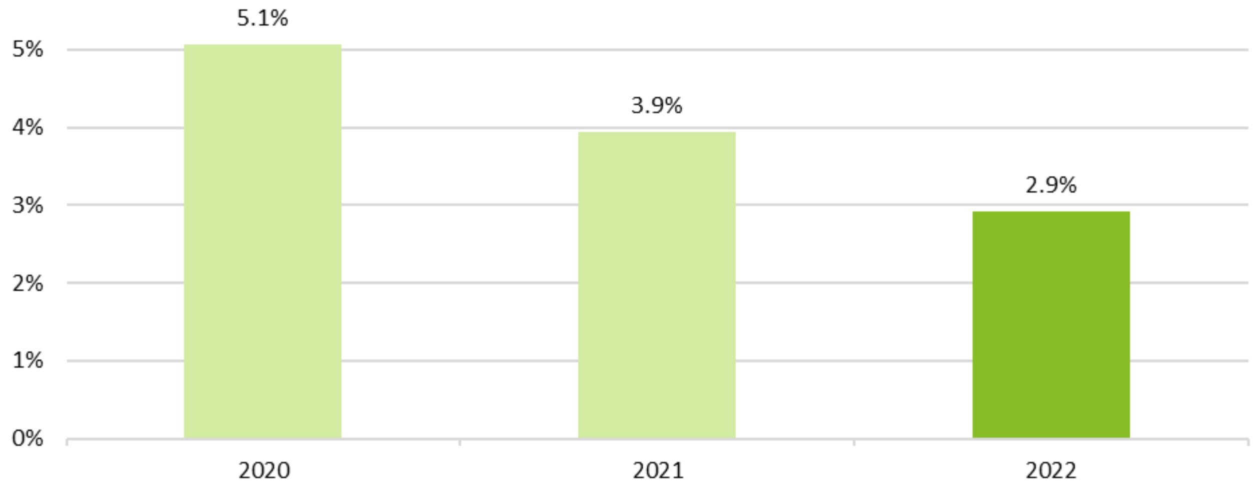
The Italian banking system has been able to consistently reduce its gross non-performing exposures ratio over the past two years, thanks to the limited rate of new NPEs and the extraordinary measures implemented by Italian banks since 2016.

For these reasons, by the end of 2022 the gross NPE ratio reached a new low level.

For significant institutions, the NPE ratio in Italy is comparable to the other major European countries and slightly above the European average.

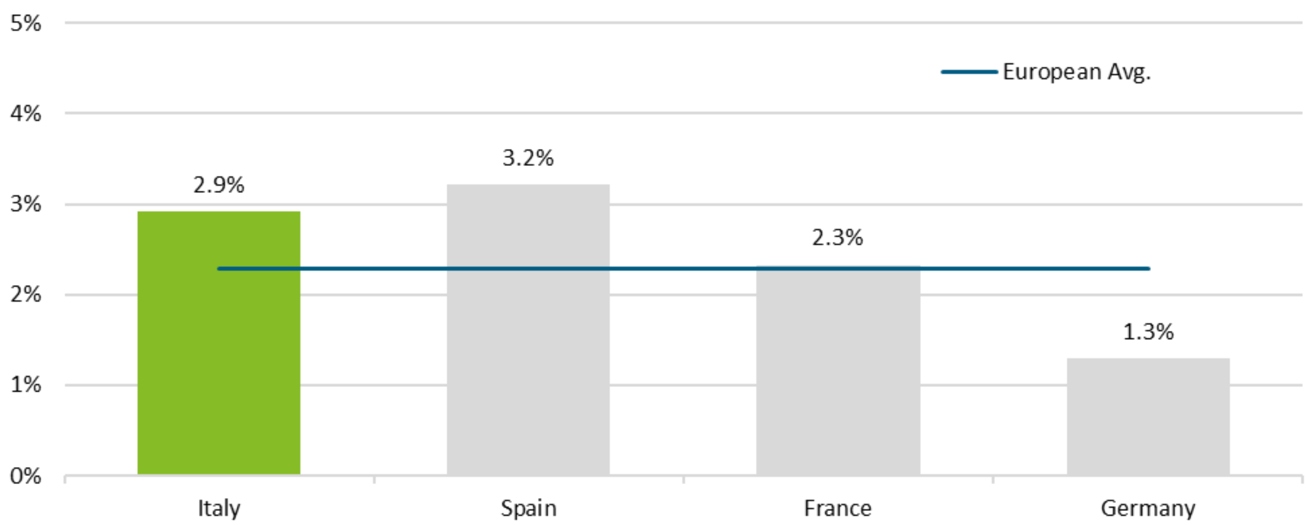
The NPE ratio of significant Italian institutions has experienced a notable and sustained decline and as of 2022 year-end it is aligned to other European countries

Figure 4 | Evolution of Italian NPE ratio (2020 - 2022)



Source: Elaboration based on "Supervisory Banking Statistics"

Figure 5 | Comparison of European NPE ratios[1] (2020 - 2022)



Source: Elaboration based on "Supervisory Banking Statistics"

[1] Includes cash balances at central banks and other demand deposits

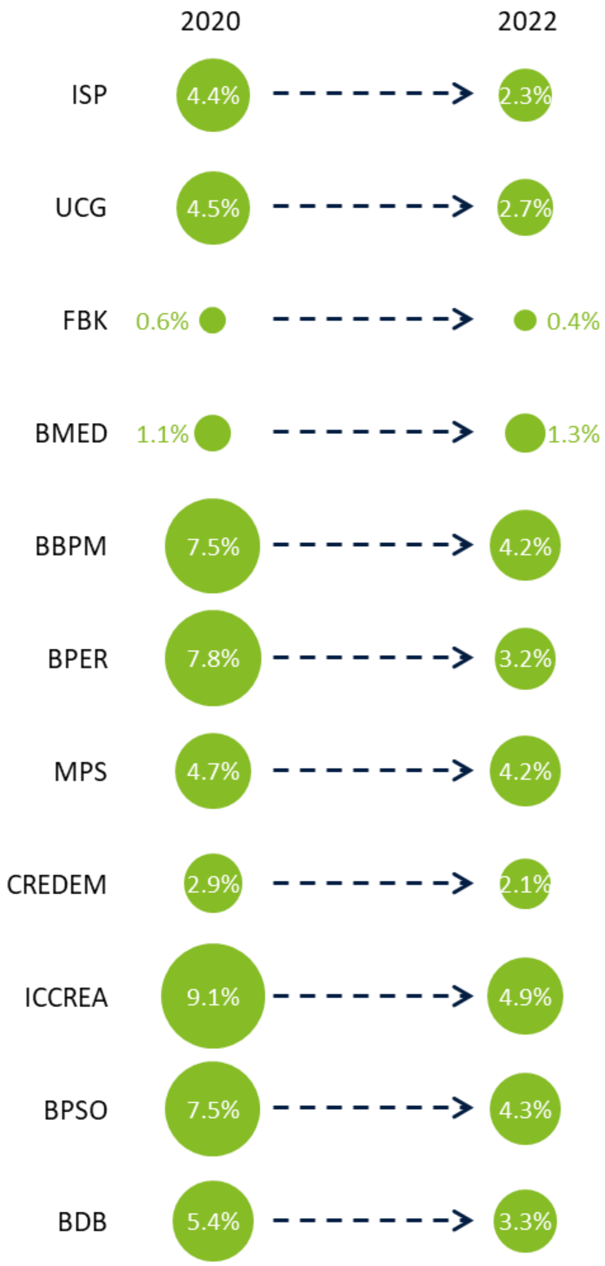
As shown in the previous charts, the Italian banking system appears to be in a more robust state compared to 2013-2014 crisis.

Furthermore, the projected inflows of non-performing exposures in the next 2-3 years are expected to be significantly lower than the levels recorded in 2012-2013 notwithstanding the current adverse macroeconomic scenario.

As a result, any anticipated increase in NPEs is likely to be counterbalanced by ongoing derisking efforts, which have enabled the largest banks to maintain, and possibly even improve, their current NPE ratios, as demonstrated over the past two years.

The main Italian banks are expected to maintain and potentially improve their current NPE ratios thanks to the ongoing derisking efforts

Figure 6 | NPE ratio of the main Italian banks



ource: Elaboration based on banks financial statements

RWA density of credit risk

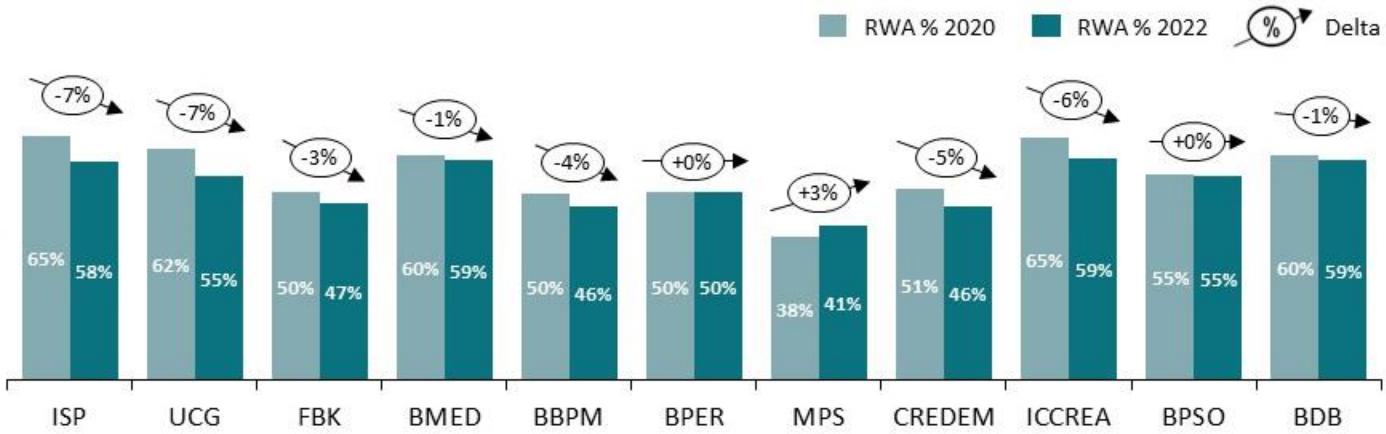
In view of the reduction of non-performing loans on the balance sheets of the major Italian banks achieved through the implementation of efficient derisking measures in the past years, the overall RWA density associated with credit risk has declined significantly.

This trend has been driven by the increasing adoption of risk assessment models internally developed by banks instead of standard models despite the limits on the overall RWA savings (compared to standard models) imposed by the supervisory authorities.

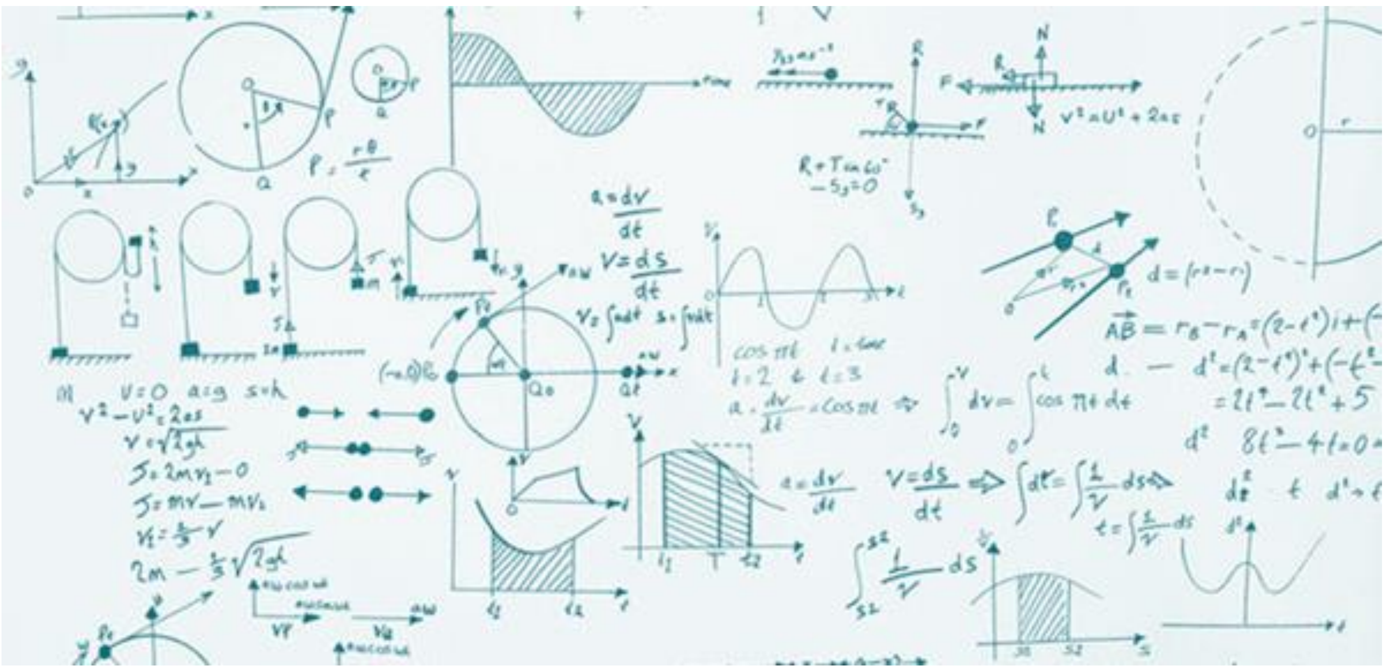
At the end of 2022, the average RWA density among the panel of major banks decreased at 52% (compared to 55% in 2020), driven by the relevant reductions related to UniCredit and Intesa (both -7% compared to 2020)

The RWA density for the major Italian banks has decreased thanks to the decline in the incidence of non-performing loans and the implementation of internal risk assessment models

Figure 7 | Evolution of RWA density related to credit risk (2020 - 2022)



Source: Elaboration based on banks financial statements and Pillar III documentation



Deleveraging activities carried out by the Italian banks

Over the past years, the banks have continued their deleveraging process, facilitated also by a downward trend in 2020-2022 danger rates for most primary banks (5.1% in 2019 vs 2.9% in 2022).

The banks have also taken advantage from effective government measures, including loan moratoria and various government-backed lending schemes like the Italian government's GACS or "Garanzia sulla cartolarizzazione delle sofferenze", introduced in 2016 to provide state backed guarantees for qualifying NPE portfolios. GACS expired on June 2022, with ongoing discussions between Italy and the EU around its renewal.

The Italian NPE market has recorded transactions for approximately 30.4 €B in 2022, with an additional 2.6 €B still undergoing at the year-end, compared to 27.5 €B in 2021. Approximately 34% (10.3 €B) of the total transacted amount referred to transactions covered by the GACS scheme, prior to its expiration.

The overall transactions outlined a notable increase in Unlikely to Pay (UTP) transactions, reaching 6.1 €B in 2022 compared to 3.1 €B in 2021. The UTP market has evolved significantly with a shift towards larger transactions and a growing number of servicers, solidifying its central role within the NPE market framework. In the previous years, the investors have displayed a significant interest in acquiring UTP portfolios, also through securitization schemes.

Concurrently, the servicers have enhanced their skills and expertise in order to extract as much value as possible from the management of UTP loans through ad-hoc restructuring plans and strategies, with the ultimate goal of a back-to-bonis status, which would represent an advantage both for the entire banking system and for the borrower.

The banks' strategy related to the UTP exposures has relied on the signing of agreements and partnerships with specialized servicers, which provide remarkable benefits for both the banks, as it prevents UTP stock from further deteriorating into bad loans (in compliance with the framework set by calendar provisioning), and for the servicer, which ensures a steady stream of new flows over a determined period for the portfolios already under management.

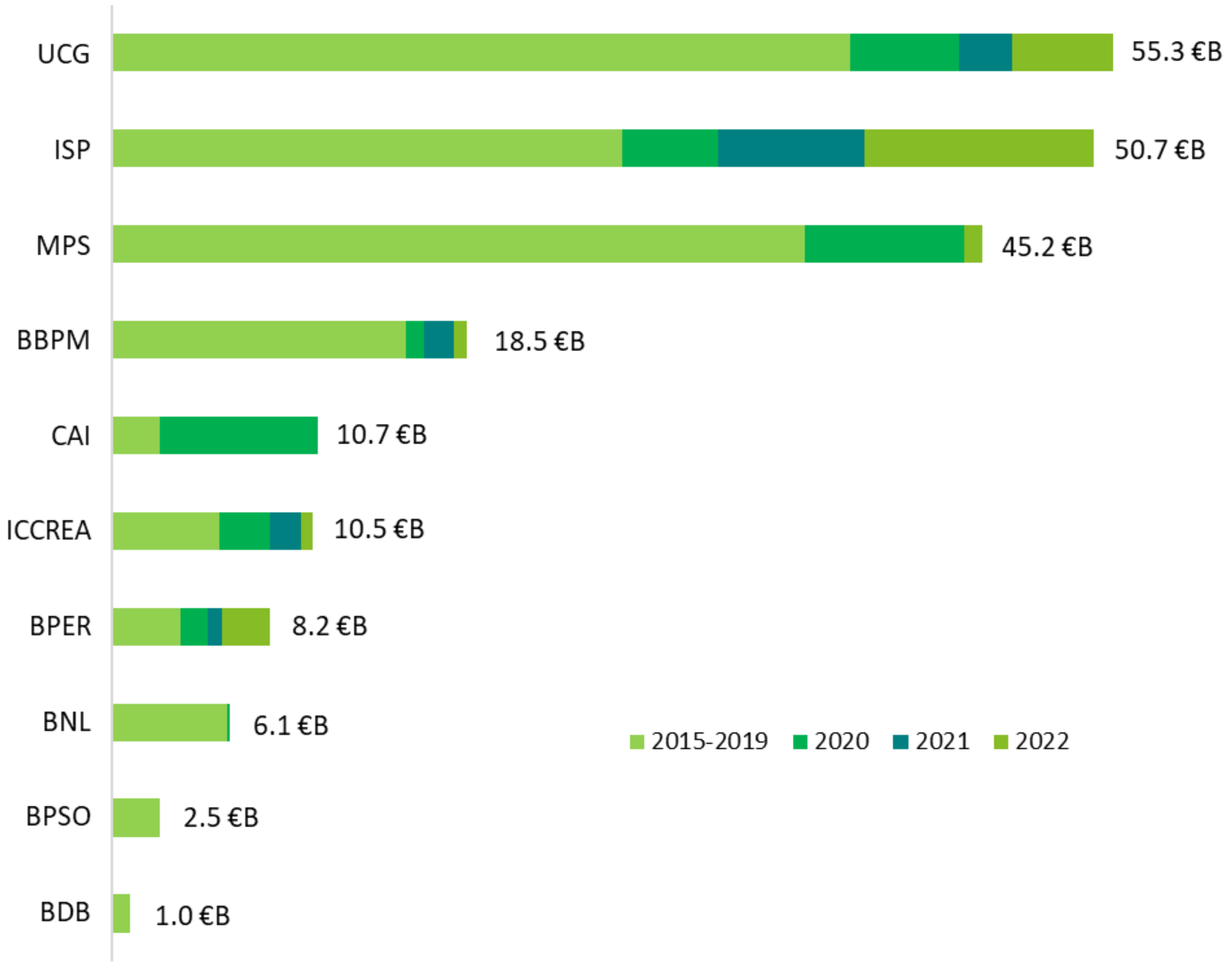
During 2022, Italian banks entered into strategic partnerships with leading players in the Italian servicing industry not only for the management of UTP but also for bad loans; specifically:

- in June 2022, UniCredit and Prelios entered into a 6-year servicing agreement for the outsourcing of the management of a portion of UTP actual stock and new inflows;
- in December 2022, Gardant and BPER entered into a 10-year servicing agreement involving the management of:
    - i. part of the NPE residual stock of BPER Banca Group after carrying out the disposal of bad loans and UTP portfolios to Gardant and AMCO;
    - ii. 90% of the potential future bad loans inflows of BPER Banca Group;
    - iii. 50% of the potential new UTP inflows of BPER Banca Group.

In addition, the secondary NPE market has experienced significant growth over the last years, with 9.5 €B in transaction during 2021-2022 period. One of the key objectives of European regulators is to promote the development of a secondary market for distressed assets in order to ease the disposal of non-performing exposures.

Overall, Italian banks have implemented various strategies to minimize their deteriorated stocks and prevent an accumulation of NPEs in line with the European Banking Authority (EBA) directives. Indeed, the NPE ratios of Italian banks can be considered in line with other European countries following significant disposals carried out since 2015.

Figure 8 | Disposal of NPEs over 2015-2022 period



Source: Elaboration based on Deloitte and public databases. The chart does not include the merged, acquired and/or defaulted banks (Banca Popolare di Vicenza, Veneto Banca, Banca Carige, Credito Valtellinese, Banca Popolare di Bari, Banco Popolare) which collectively transferred approximately 53 €B from 2015 to 2022.

Proactive risk management

In recent years, in particular after COVID-19 pandemic and the subsequent government measures implemented to protect businesses and consumers, Italian banks have introduced increasingly proactive practices in the credit management to prevent the potential deterioration of the loans as early as classified as performing.

These measures involve not only the use of standard early warning indicators (early warning system) for detecting any potential sign of credit deterioration but also an additional quantitative assessment layer that combines sectoral forecasts and additional risk indicators.

In early 2021, Italian banks conducted specific evaluations to proactively identify companies/sectors that, despite being financially supported by government measures, continued to face operational difficulties in terms of cash flow generation, anticipating any potential financial issue.

In the second quarter of 2022, a new diagnostic initiative was launched to assess expired or expiring moratoriums within a few months aiming at the identification of the risk factors and the potential challenges. This prudential approach with reinforced triggers involved the prudential classification in stage 2 of the expiring moratoria.

In fact, stage 2 levels increased sharply after the end of moratorium period and remained high compared to 2019, increasing from 9% of total loans at 4Q19 to 12% by 4Q22). In order to address the incidence increase of stage 2 loans and meet the derisking targets, the banks would rely on synthetic securitizations.

Indeed, synthetic securitizations entails the purchase of a credit risk protection through the execution of an insurance contract on the underlying portfolio of existing assets, of which the bank remains entitled of the full ownership and management. A synthetic securitization enables the bank to reduce the RWAs associated to the securitized portfolio by reducing the credit risk level of the underlying portfolio (Significant Risk Transfer - SRT), which is transferred to an external counterparty without the derecognition of the assets. The bank acquires protection in exchange of a periodic fee that represents the revenue of the protection seller that is committed to make payments by way of the credit protection upon the occurrence of a credit event (typically when actual losses on the portfolios are realized).

Figure 9 | Main elements of the early warning system

- Integration of indicators at the transaction/debtor level (e.g., internal behavioral scoring, financial indicators), as well as indicators at the portfolio level (e.g., portfolio cluster indicators, risk level indicators)
- Real-time reporting of alerts regarding early signs of credit deterioration and/or management actions
- Optimization of the utilization of processing generated for signaling, accounting, and risk measurement purposes through their integration into the early warning system
- Tracking of credit quality by position, portfolio, and customer cluster
- Automatic initiation of investigation processes and subsequent deliberation for the potential reclassification of the position into a higher risk category (from good to watchlist or to deteriorated)

Source: Elaboration based on publicly available information

03 Funding overview

Evolution of funding

By the end of 2022, Italian banks' direct funding remained relatively stable (-1%), despite early signs of a potential reduction in deposits.

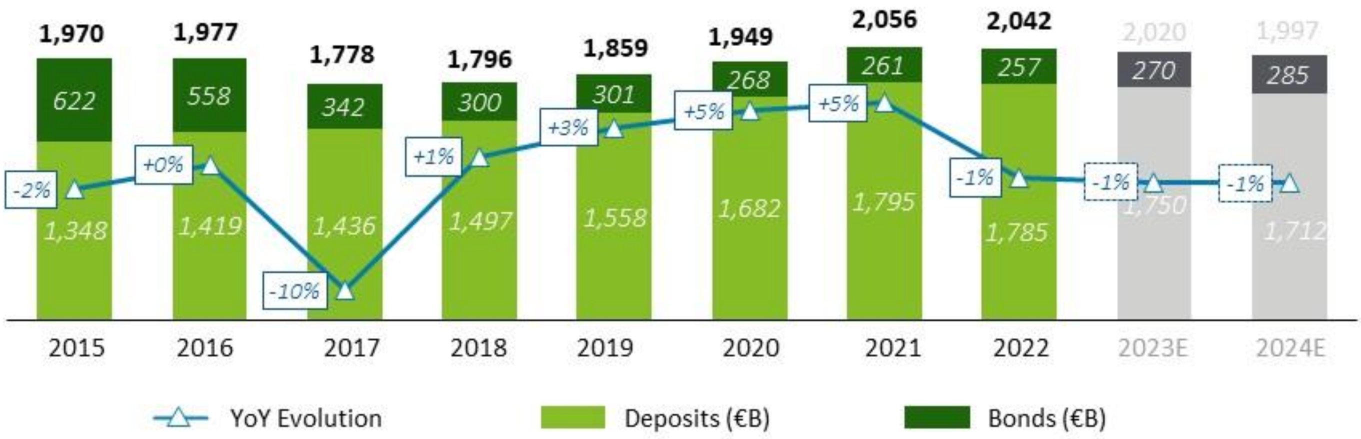
This trend was due to households' preference for financial assets with higher interest rates and corporates' usage of significant liquidity lines.

However, in the next two years, due to the restrictive measures implemented by the ECB, there may be a slight reduction in direct funding.

Furthermore, there will be a significant reshuffling in the direct funding structure, with banks becoming more reliant on term deposits and bonds, which will replace the expiring TLTRO (Targeted Longer-Term Refinancing Operations) funding.

There will be a significant reshuffle in direct funding, with term deposits and bonds replacing the expiring TLTRO funding

Figure 10 | Evolution of direct funding (2015-2024E)



Source: Elaboration based on "Prometeia, Previsioni Bilanci Bancari - Aprile 2023"

Breakdown of funding by maturity

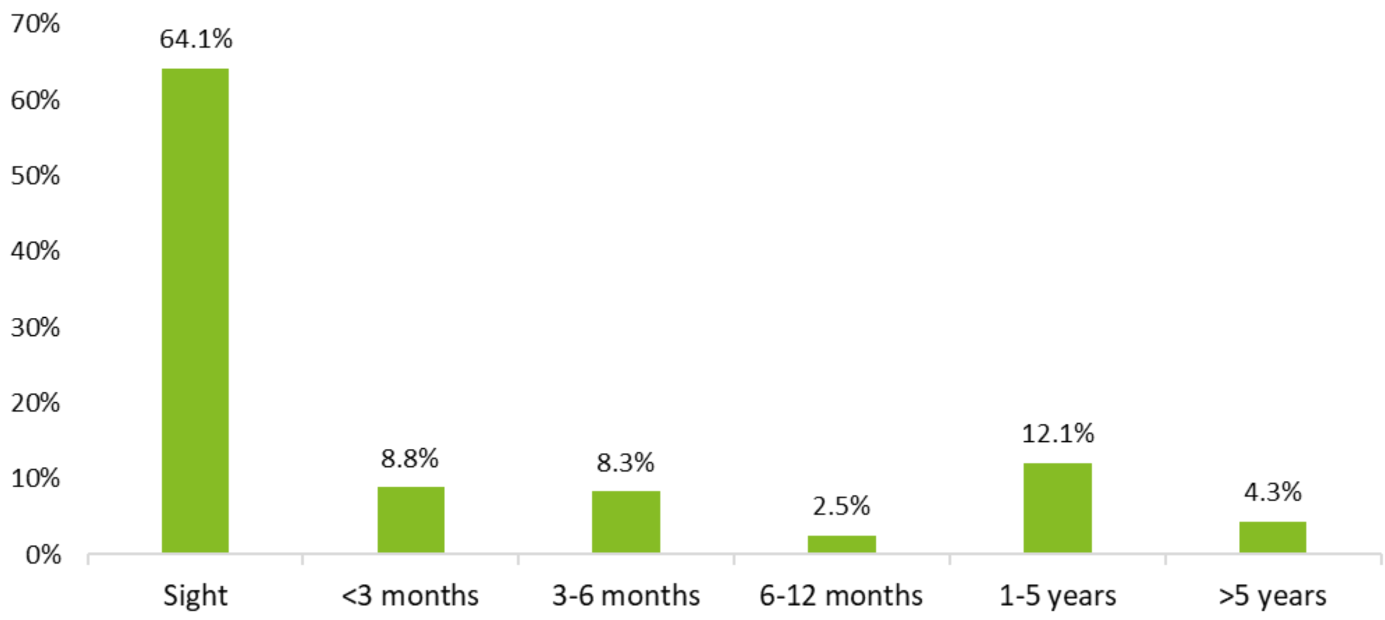
Analyzing the direct funding of the main Italian banks at the end of 2022, a predominance of demand deposits (64%) stands out as a typical feature of the traditional banking players, represented by current accounts and savings deposits of households and corporates.

Furthermore, there is a significant proportion of funding with a maturity of over 1 year, mostly represented by time deposits and bonds.

Therefore, an increase of the incidence of the long-term funding is expected soon due to the reshuffle of the funding sources.

As typical of traditional banking players, most of the direct funding consists of current accounts and sight deposits

Figure 11 | Breakdown of funding by maturity



Source: Elaboration based on banks 2022 financial statements

TLTRO incidence

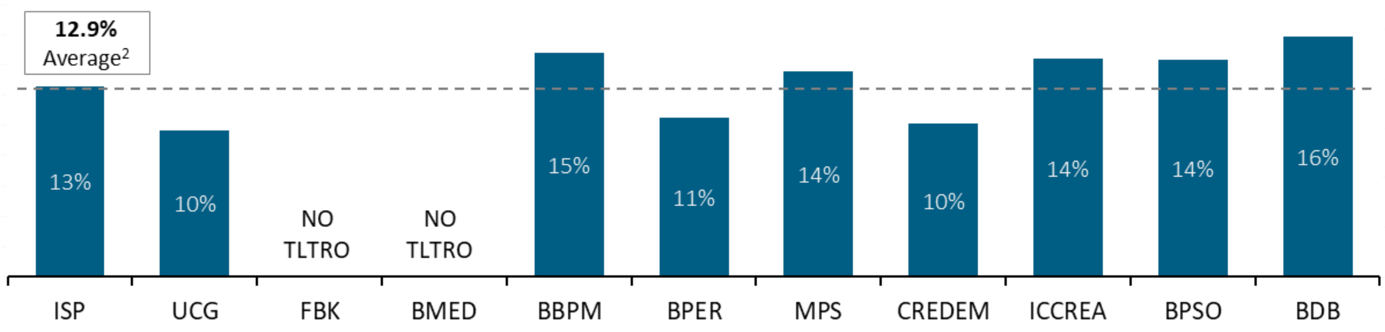
After the voluntary repayments made in February and March, and the maturity of a portion of the funding, the remaining total amount of funds disbursed under the 3rd series of TLTRO held by banks has decreased to 1,098 €B for the Eurozone (previously 1,255 €B) and 318 €B for Italy (previously 331 €B).

Focusing on the analysis of the main Italian banks, at the end of 2022 the average incidence of TLTRO on direct funding stands at 13% of direct funding

As shown in the chart below, Banco Desio is characterized by the highest incidence of TLTRO on direct funding (16%), while Fineco Bank and Mediolanum do not rely anymore on this instrument since they fully and prematurely refunded the two loans granted received under the TLTRO program.

At the end of 2022, the average incidence of funds from the 3rd TLTRO tranche is 13% for the main Italian banks

Figure 12 | Incidence of TLTRO on direct funding[1] (2022 year-end)



1. Incidence calculated as the ratio between the amount of TLTRO and item 10 of the passive balance sheet. 2. Average without Fineco Bank and Mediolanum

Source: Elaboration based on banks financial statements

Deposits protection schemes

In order to protect depositors' savings, specific funds are provided for by law that guarantee compensation of up to a maximum of 100,000 Euro in the event of the administrative liquidation of a bank.

Specifically, Italian legislation provides for the presence of the following deposit protection funds:

- ”Fondo interbancario di tutela dei depositi” (FITD), which all Italian banks belong to, except for cooperative credit institutions and rural banks.
- “Fondo di garanzia dei depositanti del credito cooperativo” (FGDCC), which only cooperative credit banks and rural banks belong to.

Both funds, subject to the supervision and authority of the Bank of Italy, which requires the mandatory participation of all Italian banks and voluntary participation of Italian branches of foreign banks, have the primary function of protecting customers’ deposits by providing the necessary financial resources and ensuring the stability of the banking system even in the event of bank failures.

As shown in the following table, over the years these funds have intervened in the bank failures in order to:

- avoid that the total capital of a bank drops too much by meeting withdrawal requests with its own financial resources only;
- in the interest of the entire system, to contain and prevent irrational and unjustified mass phenomena, which can easily spread to other credit institutions, linked to the fear of losing their savings, with an excess of withdrawal requests that would also put a perfectly sound bank from an economic, financial, and capital point of view in difficulty;
- avoid the closure of branches, safeguarding the operational continuity of the bank and its employment levels.

At the end of 2022, the financial endowment of the banks participating in the FITD amounted to approximately 3.3 €B, corresponding to 0.4% of protected deposits .

According to the estimates outlined in the FITD’s plan, by 2024 the financial endowment is expected to reach 6 €B, equivalent to 0.8% of the total amount of protected deposits (equal to the target to be achieved by 2024 following EU Directive 49/2014, which reformed the financing mechanism of protection funds through the payment of ex ante contributions).

The protected deposits have grown over the years from approximately 468 €B to 739 €B in 2022 (of which 714 €B refer to deposits attributable to banking groups and 25 €B to individual banks), also due to the liquidity boom, which was in part a consequence of the economic and financial countermeasures to the COVID-19 pandemic.

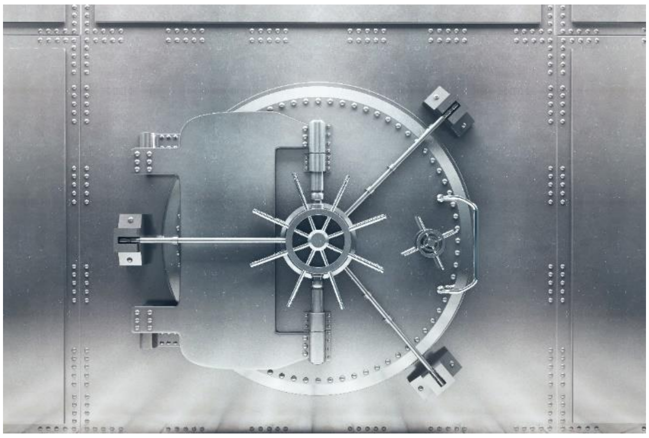


Table 1 | FITD's interventions

FITD's interventions			
Bank	**Year**	**Type of intervention**	**Amount**
Cassa di Risparmio di Prato	1988	Support intervention	413.2 €M
Banca di Tricesimo	1990	Reimbursement of depositors	3.4 €M
Banca di Girgenti	1991	Transfer of assets and liabilities	37.2 €M
Banca di Credito di Trieste	1996	Transfer of assets and liabilities	86.8 €M
Credito Commerciale Tirreno	1997	Transfer of assets and liabilities	51.4 €M
Sicilcassa	1997	Transfer of assets and liabilities	516.5 €M
Banca della Valle D'Itria e Magna Grecia	2010	Transfer of assets and liabilities	5.0 €M
Banco Emiliano Romagnolo	2011	Support intervention	16.0 €M
Banca MB	2011	Transfer of assets and liabilities	40.0 €M
Banca Network Investimenti	2012	Reimbursement of depositors	73.9 €M
Banca Popolare delle province Calabre	2016	Transfer of assets and liabilities	1.4 €M
Banca Base	2018	Transfer of assets and liabilities	4.5 €M
Banca del Fucino	2019	Support intervention	30.0 €M
Banca Carige	2019	Support intervention	301.0 €M
Banca Popolare di Bari	2020	Support intervention	1,170.0 €M
Aigis Banca	2021	Transfer of assets and liabilities	48.8 €M
Banca Carige	2022	Support intervention	530.0 €M
TOTAL			**3,329.1 €M**

Source: "https://www.fitd.it/Cosa_Facciamo/Interventi"

Evolution of funding gap

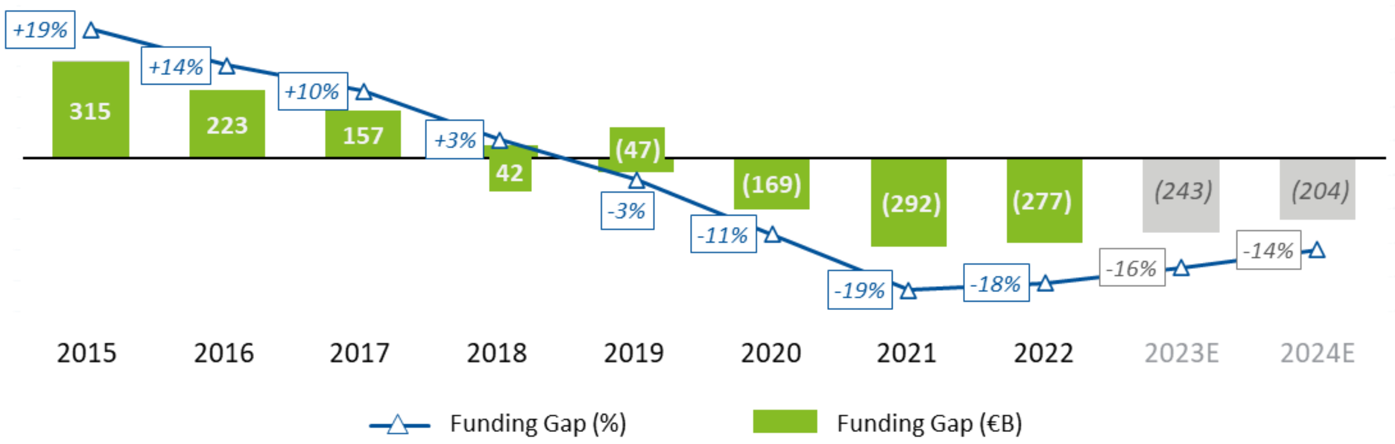
At the end of 2022, the funding gap (calculated as the delta between loans and deposits) remains negative, indicating that Italian banks continue to hold a significant liquidity buffer, starting from 2015.

This trend in terms of funding gap is also reflected in the liquidity ratios of Italian banks, generally higher than the European average.

However, this delta is expected to contract in the next two years due to the dynamics of funding, leading to a slight reduction in the context of a macroeconomic environment characterized by high interest rates.

At the end of 2022, the funding gap of Italian banks is negative, indicating a significant liquidity buffer

Figure 13 | Evolution of funding gap (2015-2024E)



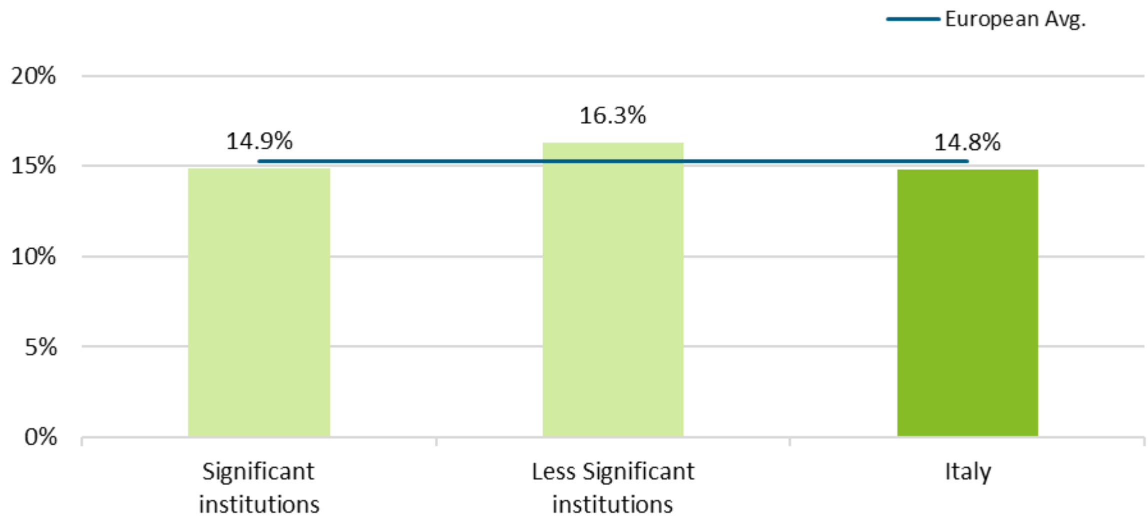
Source: Elaboration based on "Prometeia, Previsioni Bilanci Bancari - Aprile 2023"

04 Capital adequacy

In recent years, the measures carried out by the Italian banks produced a remarkable improvement in terms of balance sheets solidity, driven also by the extensive regulatory review following the outbreak of the global financial crisis and the Euro area sovereign debt crisis. By the end of 2022, the average level of capitalization, in terms of CET1 ratio and the total capital ratio, was in line with the European average, for both significant and less significant banks.

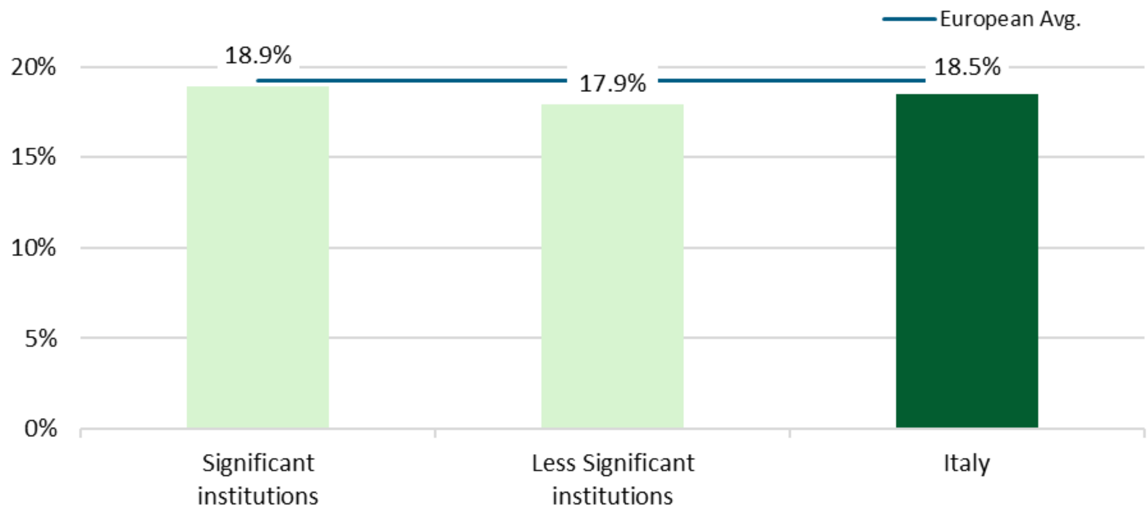
As of June 2022, the Italian banks are substantially aligned to the European average both in terms of CET1 and total capital ratio

Figure 14 | Italian CET1 ratio (June 2022)



Source: Elaboration based on "Banca d'Italia, Bollettino Economico 2 / 2023

Figure 15 | Italian total capital ratio (June 2022)



Source: Elaboration based on "Banca d'Italia, Bollettino Economico 2 / 2023

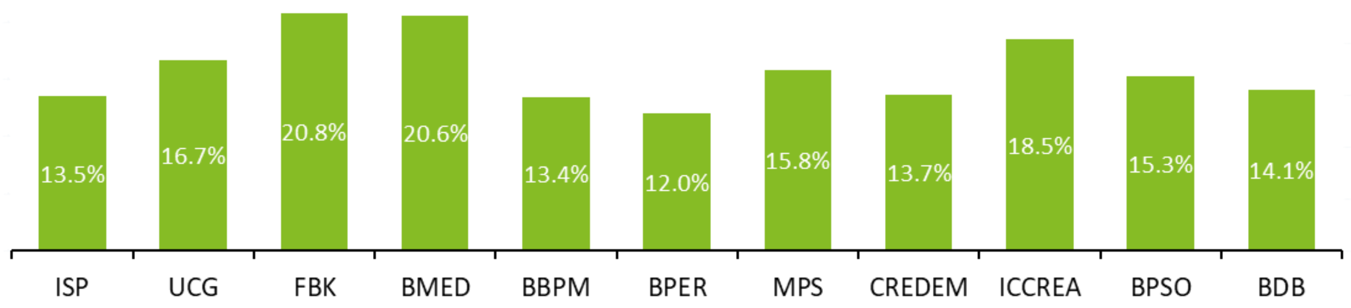
As shown in the chart below, the main Italian banks are characterized by capitalization levels well above the minimum regulatory requirements.

Indeed, in terms of CET1 ratio, BPER banca has the lowest level (12.0%, however with a remarkable capital buffer considering the 2022 SREP at 8.5%) while Fineco Bank and Mediolanum stand out with a CET1 ratio of 20.8% and 20.6% respectively.

In terms of total capital ratio, Banco Desio is the tail-end of the panel with 14.1% level (versus 11.2% total capital SREP) while Fineco Bank is at the top with a total capital ratio of 31.4%.

Among the panel under analysis, Mediolanum and Banca Desio are the only banks that do not rely on alternative tier 1 or tier 2 instruments.

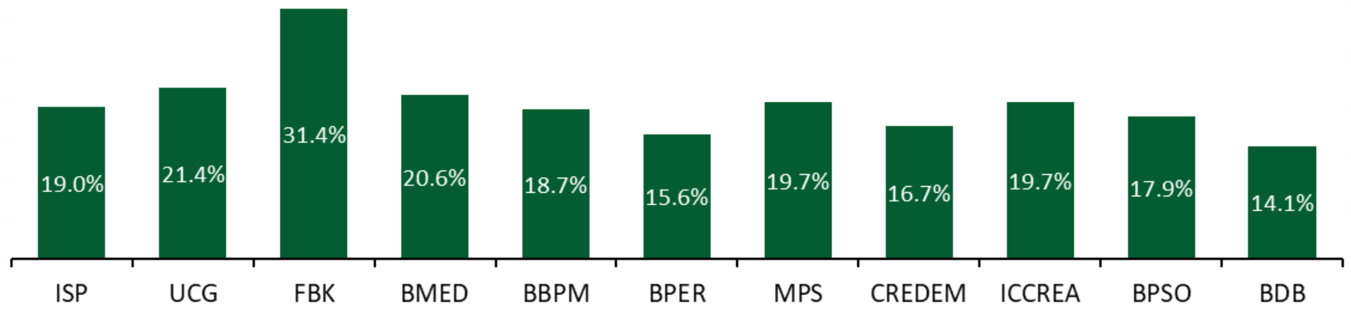
Figure 16 | 2022 CET1 ratio[1] of the main Italian banks



1. Fully loaded ratios (full Impacts of IFRS 9)

Source: Elaboration based on banks financial statements

Figure 17 | 2022 total capital ratio[1] of the main Italian banks



1. Fully loaded ratios (full Impacts of IFRS 9)

Source: Elaboration based on banks financial statements

05 Liquidity buffer

Evolution of LCR and NSFR

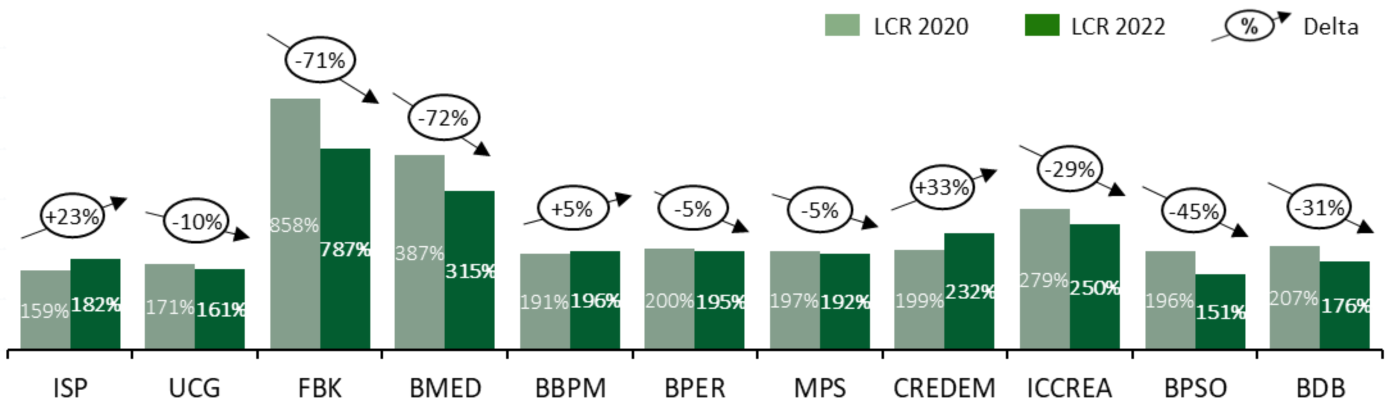
At the end of 2022, the average liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) stood at around 258% and 156% above the regulatory minimum requirements (100% in both cases) and the average level of the largest European banks.

Two of the banks considered within the panel, Fineco Bank and Mediolanum, recorded significantly higher LCR and NSFR compared to other banking institutions.

Specifically, Fineco Bank registered a LCR of 787% (858% in 2020), while Mediolanum maintains lower values (2022 LCR of 315%, -72% compared to 2020 level).

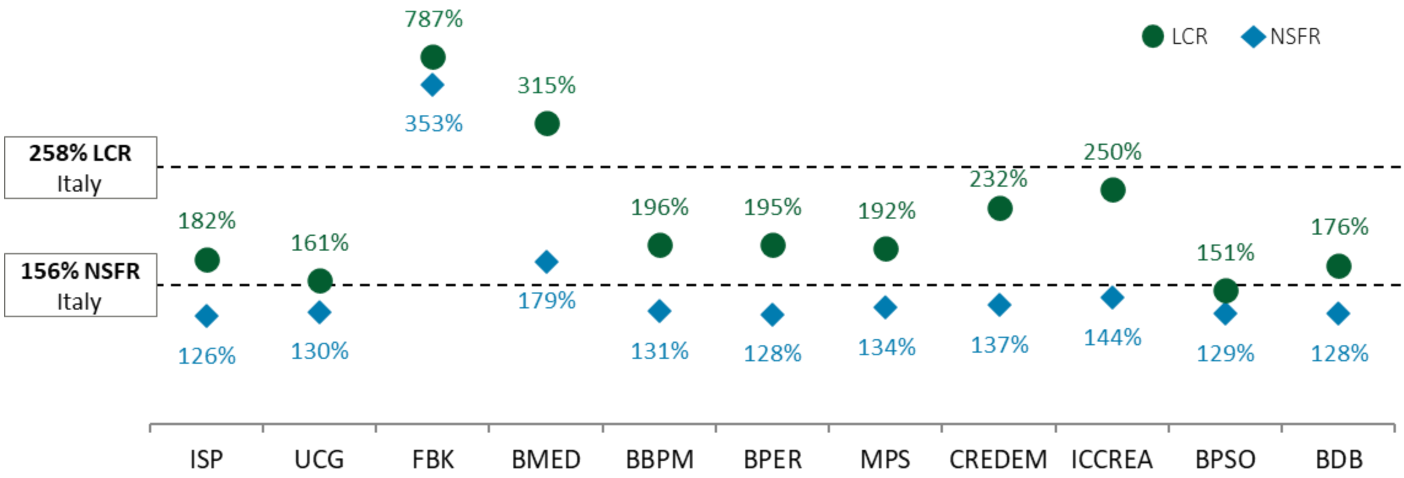
These remarkable ratios are a consequence of the non-traditional nature of the two banks, as their core business is based on different services such as asset management, private banking and brokerage services.

Figure 18 | LCR evolution (2020-2022)



Source: Elaboration based on banks financial statements

Figure 19 | LCR and NSFR at 2022 year-end



Source: Elaboration based on banks financial statements

06 Italian government bonds in banks' balance sheets

Incidence of Italian government bonds

In the sight of the abrupt increase of the interest rates during the last year, the investments of the banks in government bonds would result in significant losses at the time of the disposal in case of a liquidity shortage, as occurred for the defaulted US banks.

The potential mark-to-market losses on the portfolio of government bonds at amortized cost, which do not have until the disposal a direct negative impact on profitability or equity, would materialize if banks were compelled to sell the bonds before the maturity.

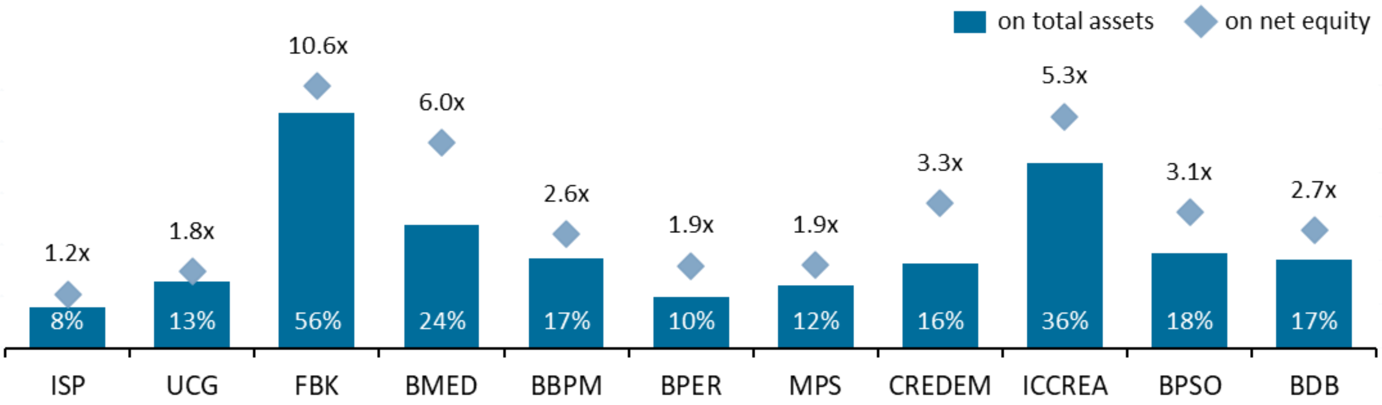
In addition, at the time of disposal a capital loss in P&L would derive also from the government bonds at fair value through other comprehensive income because the value reduction due to the interest rates increase have an impact on net equity only.

However, this possibility would be unlikely since the liquidity buffers are deemed adequate in both the short-term horizon (even under stressed conditions) and the medium-term horizon also for the banks with a remarkable government bonds portfolio.

Indeed, Fineco Bank and Iccrea, which are the banks with the highest incidence of government bonds on total assets and net equity (respectively 56% and 10.6x for Fineco Bank and 36% and 5.3x for Iccrea), are characterized by significant liquidity buffers as underlined by the outstanding level of LCR and NSFR presented above.

On the other hand, Intesa Sanpaolo is the bank with the lowest incidence (8% on total assets and 1.2x on net equity respectively).

Figure 20 | Incidence of Italian government bonds for the main Italian banks



Source: Elaboration based on banks financial statements (Amount of government securities reported in the table 'Time breakdown by contractual residual maturity of financial assets and liabilities'

07 Performances of the Italian banks' stocks

Stock price trends

Focusing on the market trend of the main Italian listed banks since January 2021, an increase in market capitalization has been recorded for almost all the institutions under analysis.

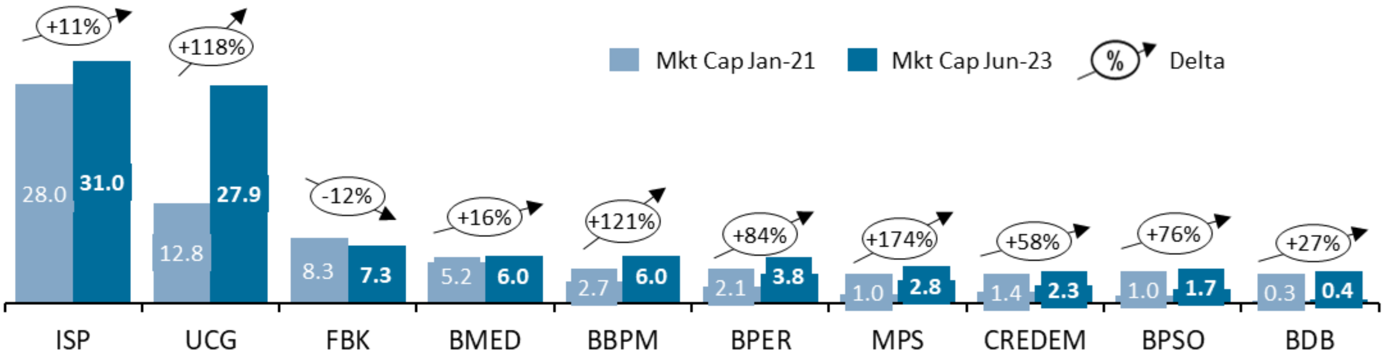
Indeed, except for Fineco Bank, which slightly declined in terms of market cap due to market concerns regarding the bank's liquidity and the deposits stability, the other traditional Italian banks have recorded enviable performances as underlined by the trend of the FTSE Italia All Share Banks (+57% since January 2021).

Excluding MPS, whose market cap increase (+174%) has been driven by a highly dilutive capital injection, Banco BPM and UniCredit have recorded the most relevant increase in terms of market cap over this timespan (+121% and +118% respectively).

Figure 21 | Price evolution of FTSE Italia All Share Banks (Jan21 - Jun23)

Source: Elaboration based on Capital IQ data (as of 23rd June 2023)

Figure 22 | Market cap (€B) trend of the main listed Italian banks (Jan21 - Jun23)



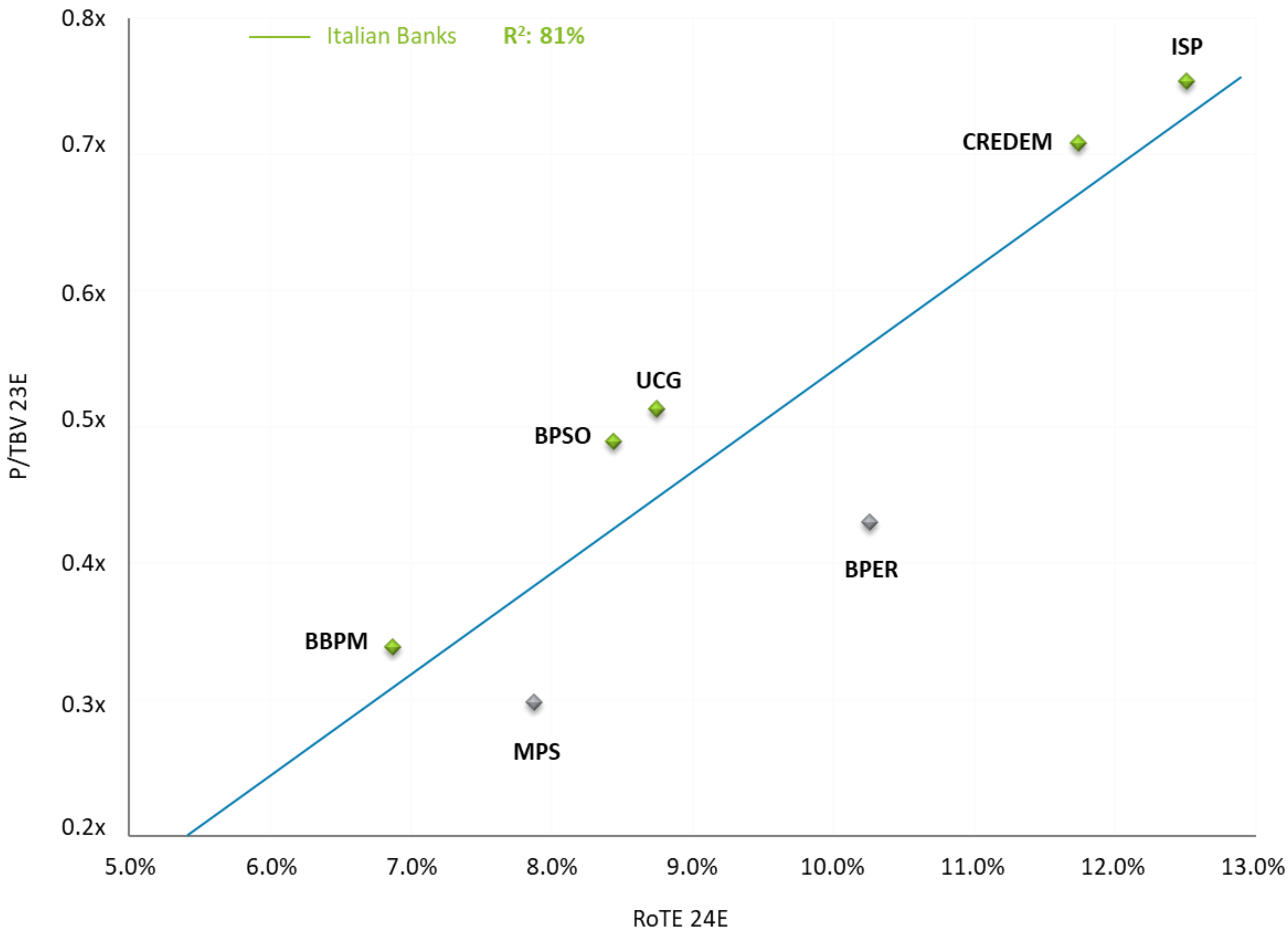
Source: Elaboration based on Capital IQ data (as of 23rd June 2023)

Value map of the traditional listed Italian banks

Starting from the average market capitalization of the last 3 months, a value map was built based on the Price to Tangible Book Value (P/TBV 23E) expected for 2023 and the Return on Tangible Equity (ROTE 24E) expected for 2024 according to analysts' estimates.

This regression analysis, characterized by an R-squared of 81%, aims to identify any bank for which the market valuation would not be fully explained by the analyzed fundamental values.

Figure 23 | Value map in terms of P/TBV 23E and ROTE 24E



Source: Elaboration based on Capital IQ data (as of 23rd June 2023)

08 Recent turmoil in the banking industry

During the initial months of 2023, the macroeconomic landscape witnessed a significant rise in inflation and a subsequent abrupt increase in interest rates, enacted by both the ECB and the Federal Reserve. This evolution created a high-pressure environment for both European and American banking systems, particularly impacting the more vulnerable players.

As a result, Silicon Valley Bank (SVB), the sixteenth-largest bank in the United States by size, and Signature Bank, a regional bank in New York, faced insolvency in March 2023. Furthermore, Credit Suisse was subsequently rescued by UBS.

Following a period of apparent stability, JPMorgan Chase Bank acquired First Republic Bank in late April 2023 after its own failure.

While these failures were triggered by the prevailing macroeconomic conditions, the underlying reasons differ for each bank (e.g. insufficient corporate governance, deficiencies in supervisory activities, etc.), as detailed below.

Silicon Valley Bank

Silicon Valley Bank, the sixteenth-largest bank in the United States by size (with approximately 200 €B in total assets), was placed under regulatory control in March 2023 by the Federal Deposit Insurance Corporation (FDIC), which is an independent U.S. agency established by Congress to ensure financial market stability and consumer confidence.

The new macroeconomic environment exacerbated the bank's already evident vulnerabilities, both in its deposit structure and investment strategy, including:

- high concentration of depositors, primarily consisting of high-tech start-up companies.
- minimal proportion of insured deposits, accounting for approximately 10% of the total amount;
- significant investments in long-term fixed-income securities, exposing the bank to the risk of interest rate increases.

In addition to these specific weaknesses, SVB was not subject to LCR and NSFR requirements, and its leverage requirements were less stringent compared to larger banks. This was due to its classification as a medium-sized bank with a differentiated and less rigorous regulatory framework resulting from the modifications made to the Dodd-Frank Act in 2018.

The bank's collapse, following the sudden interest rate hike by the Federal Reserve in response to inflation growth, was triggered by the following series of events:

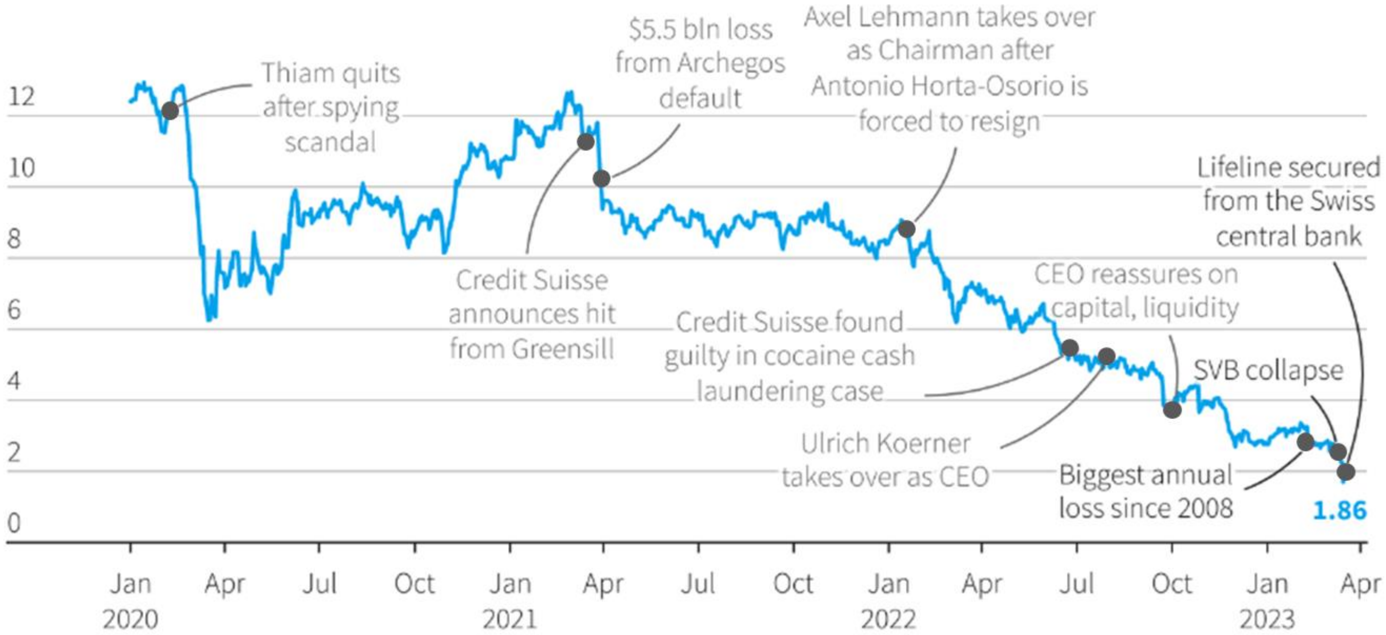
- liquidity crunch for SVB's clients, primarily comprising high-tech start-ups, who were compelled to withdraw their deposits to meet their liquidity needs;
- to fulfill depositors' withdrawals, SVB was forced to sell 21 €B worth of U.S. Treasury bonds, incurring in a loss of 1.8 €B due to the disparity between the average yield of the dismissed bonds (approximately 1.79%) and the prevailing market rates (the 10-year Treasury yield was around 3.9%);
- to offset the additional losses resulting from the sale of the Treasury bonds, SVB announced a capital increase of 2.25 €B;
- the market announcement fueled increased customer distrust, leading to a full-fledged bank run that ultimately culminated in SVB's failure.

Signature Bank

Signature Bank, a New York-based regional bank with assets exceeding 110 €B and a leading player in the cryptocurrency lending industry, was placed under regulatory control by the New York Department of Financial Services.

This action followed a loss of confidence, since customers chose to move their deposits to larger banks due to the bank's focus on crypto assets.

Figure 24 | Credit Suisse stock price, CHF (2020-2023)



Source: Reuters site, URL "https://www.reuters.com/business/finance/credit-suisse-how-did-it-get-crisis-point-2023-03-16/"

Credit Suisse

Credit Suisse, the second-largest Swiss bank with assets totaling 531 €B, received support through the recourse of a 54 $B liquidity line provided by the Swiss National Bank and was subsequently acquired by UBS to prevent the bank from failure.

Unlike the two American banks, the causes of Credit Suisse's collapse could be attributed to:

- a string of scandals over many years (e.g. scandal connected to the failing to prevent money laundering by a Bulgarian cocaine trafficking gang);
- top management changes;
- multi-billion dollar losses and an uninspiring strategy.

Furthermore, the sell-off in Credit Suisse's shares began in 2021, triggered by losses associated with the collapse of investment fund Archegos and Greensill Capital.

In January 2022, Antonio Horta-Osorio resigned as chairman for breaching COVID-19 rules, just eight months after he was hired to fix the ailing bank.

Following the market announcement of a loss of 7.3 B in Swiss francs for the year 2022, Saudi National Bank, the bank's top backer, told reporters it could not provide more money to the bank as it was constrained by regulatory hurdles, while saying it was happy with the bank's turnaround plan.

Despite the 54 B in Swiss francs line provided by the Swiss National Bank, the acquisition by UBS was necessary due to the inability to regain the trust of investors and clients.

First Republic Bank

First Republic Bank, the fourteenth-largest bank in the United States by size (with approximately 229 €B in total assets), was a regional bank known for catering to wealthy clients in coastal states with branches in high-income communities such as Beverly Hills and Santa Monica.

The bank's collapse was attributed to the same factors that led to the failure of SVB, namely:

- significant concentration of depositors, primarily consisting of business clients' deposits (63%);

- extremely high proportion of uninsured deposits, accounting for approximately 68% of the total deposits as of December 2022;
- non-profitable mortgage book due to the strategic choice of providing ultra-wealthy clients in finance, tech, and media with very cheap mortgages; in particular, First Republic offered interest-only mortgages, where the borrower didn't have to pay back any principal for the first decade of the loan;
- significant investments in long-term fixed-income securities, exposing the bank to the risk of interest rate increases and significant unrealized losses.

These factors led customers to maintain their loans with the bank and withdraw their deposits, resulting in an outflow of over 100 €B in the first three months of the year.

To prevent further stress and tensions in the U.S. banking market, First Republic Bank was bought by JPMorgan after the regulators took control of the bank.

Other potential distressed banks

Within the U.S. banking system, there are still some medium-sized regional banks in critical conditions from a liquidity point of view and potentially on the brink of collapse.

Evolution of European regulation

The default of SVB and the other US banks, although it occurred in the United States, could have implications for banking regulations in Europe as well. The failure of these US banking institutions has significantly increased the attention and the focus of the ECB on liquidity risk.

Following the latest report prepared by the Financial Stability Board for the Eurogroup, it has been highlighted that the ECB and EBA could:

- incorporate factors such as high concentration of deposit base and heavy reliance on uninsured deposits into the second pillar (SREP), which have been crucial in the outbreak of the recent banking crisis;
- increase capital and liquidity requirements for institutions that are more exposed to deposit outflows, particularly fintech and digital banks;
- conduct targeted and through inspections aimed at the identification of the most vulnerable financial institutions, addressing the potential deficiencies and imposing the required corrective measures;
- require banking institutions to provide additional data on their exposure to an interest rate increase in the context of ECB stress tests and perform sensitivity analyses based on the potential scenarios and related outcomes.

However, it is important to note that within the Italian and the wider European banking system, there are no indications of situations resembling those witnessed in the United States. This can be attributed to the implementation of stricter regulations and comprehensive supervision that prioritize the sustainability of operational and business models.

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10 Glossary

BBPM: Banco BPM

BDB: Banco Desio e della Brianza

BMED: Banca Mediolanum

BNL: Banca Nazionale del Lavoro

BPER: Banca Popolare dell'Emilia-Romagna

BPSO: Banca Popolare di Sondrio

CAI: Crédit Agricole Italia

CET1: Common Equity Tier 1

CREDEM: Credito Emiliano

EBA: European Banking Authority

ECB: European Central Bank

EU: European Union

FBK: Fineco Bank

FDIC: Federal Deposit Insurance Corporation

FGDCC: Fondo di garanzia dei depositanti del credito cooperativo

FITD: Fondo interbancario di tutela dei depositi

GACS: Garanzia sulla cartolarizzazione delle sofferenze

ICCREA: Gruppo Bancario Cooperativo Iccrea

ISP: Intesa Sanpaolo

LCR: Liquidity coverage ratio

Market cap: Market capitalization

MPS: Banca Monte dei Paschi di Siena

NSFR: Net stable funding ratio

NPEs: Non-performing exposures

P/TBV: Price to Tangible Book Value

ROTE: Return on Tangible Equity

SREP: Supervisory review and evaluation process

SRT: Significant Risk Transfer

SVB: Silicon Valley Bank

TLTRO: Targeted Longer-Term Refinancing Operations

UCG: UniCredit

US: United States

UTP: Unlikely to Pay

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