Net Stable Funding Ratio

Repo Asymmetry and Intragroup Implications

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Net Stable Funding Ratio

Repo Asymmetry and intragroup Flows

1. Repo asymmetry in the NSFR requirements
   i. Overview
   ii. Potential market implications
   iii. Possible adjustments to the current proposals
2. NSFR on the entity and consolidated level

Repo treatment under NSFR
Overview

	<6 months maturity		6m-12m maturity		>12 months maturity	
	Avaliable stable funding (Repo)	Requires stable funding (Reverse Repo)	Avaliable stable funding (Repo)	Requires stable funding (Reverse Repo)	Avaliable stable funding (Repo)	Requires stable funding (Reverse Repo)
Financial Institutions	**0%**	**10%/15%***	50%	50%	100%	100%
Corporate, Sovereign, Supra and other Non FI	0%	50%	50%	50%	**100%**	**65%/85%****
Central banks	0%	0%	50%	50%	**100%**	**65%/85%****
Small Business	0%	50%	50%	50%	**100%**	**65%/85%****

Source: ICMA 2016

*10% if HQLA L1/15% if HQLA L2/Non HQLA
**65% if < 35% Risk Weighting; 85% if >35%

Repo treatment under NSFR
Potential Implications for the market

- Increased costs for all particpant in the system – *Implies billions of additional long term financing needed for short term business*
- Reduced market intermediation
- Reduced collateral fluidity
- Potential disproportional high impact on very short dated business
- Reduced market liquidity/Volumes
- Combined with other regulations (eg Leverage ratio) could have a significant impact on the overall repo market

Repo treatment under NSFR

Suggested adjustments to the current proposals

1. Adjustments to Article 428e on netting:

Article 428e Netting of secured lending transactions and capital market-driven transactions
By way of derogation from Article 428c(1), assets and liabilities resulting from secured lending transactions and capital market-driven transactions as defined in Article 192(2) and (3) with a single counterparty shall be calculated on a net basis, provided that those assets and liabilities respect the netting conditions set out in Article 429b(4).

2. Remove the asymmetry for Financial Institution business or exception for transactions below one month maturities

- Limited reliance on financing between financial institutions for many regulatory reasons
- Around two thirds of the volume in the repo market transacted below 1 month maturities, covered by the LCR regulations

Net Stable Funding Ratio

NSFR compliance on the entity and consolidated level

Since the crisis significantly reduced reliance on intragroup funding within Erste Group MREL requirements rather than NSFR potentially a much greater challenge

However based on the current proposals:

- Legal lending limit constraints moves significant intragroup flows to collateralised borrowing/lending (again asymmetry between Repo/Reverse repo) therefore impacting liquidity flows between currencies/effective short term liquidity management

- Inconsistent treatment in Covered Bond collateral within the savings banks sector (underlying mortgage vs encumbered collateral), potentially reducing efficency of covered bond funding