Banca Popolare Receives €500m State-Backed Boost

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Banca Popolare di Milano, the Italian mid-sized bank, yesterday received a €500m ($734m) state-backed capital injection.

The move comes as the country's larger banks are increasingly reluctant to accept the government's offer of help to weather the banking crisis.

Analysts say the Italian state aid scheme has two problems that trouble Italy's biggest banks: it is expensive and it is late. This is particularly problematic for its top two banks, Intesa Sanpaolo and UniCredit, which have extensive operations outside the country.

Banks globally that received state aid at the height of the crisis are already paying it back.

"They definitely think they could be behind the curve on this, which would leave them at a disadvantage relative to their European peers," a Milan-based analyst said yesterday.

Bank share prices have also recovered strongly this year, opening the way to tapping existing shareholders. Shares in UniCredit, the bank most exposed to the crisis, have risen 137 per cent in the past six months, while Intesa is up 62 per cent.

Intesa Sanpaolo told the Financial Times this month that it might not pursue the €4bn capital injection it had sought. It is considering selling its asset management unit in a transaction that could raise about €3bn.

Meanwhile, UniCredit yesterday hinted that it also might not pursue its request for €4bn, split between the governments of Italy and Austria, where it has significant operations.

The bank said it was "working on all possible options" to boost capital ratios, which analysts said could mean it would tap shareholders rather than have the state as an investor. UniCredit's statement was in response to reports that it might consider other options for boosting its capital rather than taking the €2bn it was seeking from the Italian government.

The bank's board meets on September 29, when it could make a final decision on its capital-boosting arrangements. Intesa is due to make a final decision around the same time.

Banca Popolare di Milano received its capital injection in the form of so-called Tremonti bonds, in a scheme under which the state bought €500m of bonds issued by the bank. The injection lifted Banca Popolare's core tier 1 capital ratio - a measure of financial strength - to 7.65 per cent from 6.22 per cent.

Shares in UniCredit closed 2.6 per cent lower; Intesa was down 1.8 per cent; and Banca Popolare di Milano also ended the day 1.8 per cent lower.