State aid: Commission authorises precautionary recapitalisation of Italian bank Monte dei Paschi di Siena

European Commission
The European Commission has approved Italy’s plan to support a precautionary recapitalisation of Italian bank Monte dei Paschi di Siena under EU rules, on the basis of an effective restructuring plan. This will help ensure the bank’s long-term viability, whilst limiting competition distortions.

The Commission has approved state aid in the amount of €5.4 billion for a precautionary recapitalisation of Monte dei Paschi di Siena (MPS), which follows the agreement in principle reached on 1 June 2017 between Commissioner Vestager and Pier Carlo Padoan, Italy's Minister of Economy and Finance, on the restructuring plan of MPS. The two conditions for this agreement are now both fulfilled, namely the European Central Bank, in its supervisory capacity, has confirmed that MPS is solvent and meets capital requirements, and Italy has obtained a formal commitment from private investors to purchase the bank's non-performing loan portfolio.

The plan enables MPS to meet possible capital needs that would emerge if economic conditions were to worsen (as a precaution). In order to approve the state injection, MPS's shareholders...
and junior creditors have contributed €4.3 billion to limit the use of taxpayer money as required by EU state aid rules. Separately, eligible retail bondholders can seek compensation from the bank for having been mis-sold junior bonds. Furthermore, the bank will undergo in-depth restructuring to ensure its future viability and to ensure the Italian State will be sufficiently remunerated for its investment.

Commissioner Margrethe Vestager, in charge of competition policy, said: "We have approved Italy’s capital injection into MPS in line with EU rules, which will help MPS meet capital needs in case economic conditions were to worsen unexpectedly. To ensure MPS’s long-term viability, the bank will re-focus its business model and move more than €26 billion in non-performing loans off its balance sheet. This capital injection could only be approved after junior bondholders and shareholders have contributed to the costs of restructuring, in line with "burden-sharing" requirements under EU state aid rules."

Vice-President Valdis Dombrovskis, responsible for Financial Stability, said: "Depending on the specific circumstances, Banking Union rules allow different solutions when banks need fresh capital. In any case, the solutions found should protect financial stability in Europe and limit the burden on taxpayers. In the case of MPS the conditions are met for a precautionary recapitalisation. Shareholders and junior bondholders have also participated in the costs."

EU rules, in particular the Bank Recovery and Resolution Directive (BRRD), offer a possibility for the State to inject capital into a solvent bank, provided that certain criteria are met (so-called "precautionary recapitalisation"). State aid in this context can only be granted to prepare for possible capital needs of a bank that would materialise if economic conditions were to worsen and does not trigger resolution of the bank. The option of precautionary recapitalisations for solvent banks under the BRRD was agreed between the European Parliament and the Council when the Directive was adopted.
On 23 December 2016, MPS announced its intention to request a precautionary recapitalisation, after its attempt to fully raise capital from private investors had failed. This attempt was triggered by the bank's performance in the 2016 EU-wide stress test, carried out by the European Banking Authority and the European Central Bank, which revealed a capital shortfall under the "adverse scenario", which simulates a hypothetical worsening of economic conditions.

To address this shortfall, under Italy's plans:

- In line with "burden-sharing principles" under EU state aid rules, junior bondholders and shareholders have contributed €4.3 billion, i.e. from the conversion of junior bonds into equity and the dilution of existing shareholders.
- MPS has sold some activities, raising private capital amounting to €0.5 billion.
- The State will inject the remaining capital worth €5.4 billion, in return for shares in MPS (bought at a discounted price).

Overall, the plan ensures that there are sufficient private means to cover current and likely losses of MPS.

At the same time, retail junior bondholders who are victims of mis-selling and fulfil certain eligibility criteria can apply for compensation, involving an exchange of their converted shares into senior MPS bonds. Such compensation is an entirely separate consideration to burden-sharing under EU State aid rules. MPS plans to spend up to €1.5 billion to compensate retail junior bondholders, who have been mis-sold.

*Restructuring plan*

Since a precautionary recapitalisation involves the use of taxpayer money, EU State aid rules make sure that public funds can only be injected in a bank that is profitable in the long-term. This requires the bank to undergo in-depth restructuring with the purpose of ensuring its viability in the long-term. Furthermore, the State must be sufficiently remunerated for its capital injection.
MPS’s restructuring plan provides for a five-year restructuring period during which:

- The bank plans to **re-orient its business model** towards retail customers and small and medium-sized businesses, strengthen its **efficiency** and improve its **credit risk management**. As part of this, MPS’s senior management will be subject to a **salary cap** (covering the total remuneration package) as required under EU State aid rules. This cap corresponds to 10 times the average salary of MPS employees.

- Another key element of the plan is the **disposal of a €26.1 billion non-performing loan portfolio** on market terms by transferring it to a privately-funded special vehicle. This operation will be partially funded by the Atlante II fund. MPS will also sell the lower risk senior notes of the vehicle to private investors. To facilitate this sale, it will apply for State guarantees on market terms for the senior tranche under an Italian State guarantee scheme (the so-called "GACS", an aid-free scheme approved by the Commission in **February 2016**).

These actions will help to ensure MPS’s long-term viability. The Commission also confirmed that the restructuring plan aims at an appropriate return on equity for the State to be sufficiently remunerated for its capital injection.

Finally, the plan also takes into account several commitments to limit distortions of competition, such as a ban on advertising of the State aid and aggressive commercial practices.

As part of its State aid decision, the Commission has also verified that the capital injection by the Italian state can be granted as a precautionary recapitalisation within the meaning of the **Bank Resolution and Recovery Directive** (BRRD). It concluded that all the conditions of the BRRD were met.

**Background**

See also the **Factsheet** – State aid: How the EU rules apply to banks with a capital shortfall.
Monte dei Paschi di Siena is the fourth largest Italian bank and at the end of 2016 had a market share of 7.1% at national level. On 23 December 2016, MPS submitted a request for liquidity support. The Commission temporarily approved the aid (i.e. State guarantees for bonds issued by the bank), conditional upon, amongst other things, the submission of a restructuring plan. With the presently submitted restructuring plan, also the liquidity aid has now been authorised on a definitive basis.

The "Garanzia Cartolarizzazione Sofferenze" (GACS) is an Italian state guarantee scheme designed to assist Italian banks in securitising and moving non-performing loans off their balance sheets. The Commission confirmed that the measure did not involve any state aid in February 2016.

More information will be made available under the case number SA.47677 in the State Aid Register on the Commission's competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.

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