State Aid SA.103450 (2022/N) – Italy Banca Monte dei Paschi di Siena – Second amendment to the list of commitments related to the aid granted to Banca Monte dei Paschi di Siena in 2017

European Commission

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In the published version of this decision, some information has been omitted, pursuant to articles 30 and 31 of Council Regulation (EU) 2015/1589 of 13 July 2015 laying down detailed rules for the application of Article 108 of the Treaty on the Functioning of the European Union, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus […]

Subject: State Aid SA.103450 (2022/N) – Italy
Banca Monte dei Paschi di Siena – Second amendment to the list of commitments related to the aid granted to Banca Monte dei Paschi di Siena in 2017

Excellency,

1. PROCEDURE

(1) By decision of 4 July 2017 (the “2017 Restructuring Decision”)\(^1\), the Commission approved restructuring aid and liquidity aid (the “existing Measures”) to Banca Monte dei Paschi di Siena (“MPS” or the “Bank”) of EUR 5.4 billion and EUR 15 billion respectively, based on a Restructuring Plan (the “2017 Restructuring Plan”) and Restructuring Commitments (the “2017 Commitments”). Among others, Italy committed to sell its stake in the Bank by […]\(^*\).


\(^*\) Confidential information.

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Ministro degli Affari esteri e della Cooperazione Internazionale
P.le della Farnesina 1
I - 00194 Roma
(2) On 6 August 2019, following pre-notification contacts, the Italian authorities formally requested the Commission to amend the 2017 Restructuring Decision and proposed amendments to the 2017 Commitments 9 and 24 (the “2019 Amendments” and, read together with the 2017 Commitments, the “existing Commitments”).

(3) By decision of 12 September 2019 (the “2019 Amendment Decision”)\(^2\), the Commission decided not to raise objections to the 2019 Amendments. The 2019 Amendments did not alter the overall balance of the existing Measures and of the commitments provided by Italy at the time of the 2017 Restructuring Decision and did not affect the conclusions reached thereby. Therefore the Commission considered that the aid remained compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union (“TFEU”).

(4) Following the 2017 Restructuring Decision a monitoring trustee (the “Monitoring Trustee”) was appointed and regularly reported to the Commission on the implementation of the existing Commitments. In the course of 2021, the Italian authorities updated directly the Commission on the process of the sale of its shares in the Bank\(^3\).

(5) Starting from December 2021, pre-notification contacts took place between the Commission services and the Italian authorities, in the context of which the Italian authorities submitted a draft proposal for revised commitments and relevant supporting information.

(6) On 8 July 2022, the Italian authorities formally notified a request to amend the existing Commitments (the “Notified Amendments”), and asked the Commission to confirm on that basis the conclusion of its compatibility analysis made in the 2017 Restructuring Decision.

(7) By letter dated 5 July 2022, Italy agreed to waive its rights deriving from Article 342 TFEU in conjunction with Article 3 of Regulation 1/1958 and to have the present amendment decision adopted and notified in English.

2. FACTS

2.1. Description of the beneficiary

(8) MPS is the 5\(^{th}\) largest Italian bank in terms of total assets, with a total balance sheet of circa EUR 138 billion, risk-weighted assets (“RWA”) of EUR 47.8 billion, 21,244 employees and 1,368 branches in Italy, as of 31 December 2021\(^4\).

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\(^2\) State Aid SA.55121 (2019/N) – Banca Monte dei Paschi di Siena – Amendments to the list of commitments of the Republic of Italy to the European Commission, OJ C 7, 10.1.2020, p. 2.

\(^3\) See recital (22)(iv) for more details.

It is mainly active in the retail and small and medium-sized enterprises (SMEs) segments, with a market share at national level in terms of number of branches of 6.4%, as of 31 December 2021. The Bank is also present in the wealth management and insurance businesses, based on partnerships with third parties.

The Bank generated EUR 310 million in net profit in 2021, equivalent to a return on equity of 5.2%.

In terms of capital, the Bank’s phased-in Total Capital Ratio (“TCR”) stood at 16.1% and its phased-in Common Equity Tier 1 (“CET1”) ratio amounted to 12.5%, while its fully-loaded CET1 ratio amounted to 11%, as of 31 December 2021.

In terms of liquidity, the Bank presented a liquidity coverage ratio (“LCR”) and a net stable funding ratio (“NSFR”) of, respectively, 172.7% and 129.6%, as of 31 December 2021.

In terms of its shareholding structure, the Italian State holds around 64.23% of the Bank’s share capital.

2.2. The existing Measures, the 2017 Restructuring Plan and the existing Commitments

The existing Measures, as described in recitals (23)-(30) of the 2017 Restructuring Decision, consisted of:

(i) liquidity aid in the form of State guarantees on senior liabilities for a maximum nominal amount of EUR 15 billion;

(ii) restructuring aid in the form of a precautionary recapitalisation of up to EUR 5.4 billion, through the subscription by the State of EUR 3.9 billion in newly issued shares and the purchase of up to EUR 1.5 billion in existing shares.

The Commission approved the aid measures in the 2017 Restructuring Decision based on a restructuring plan and a number of commitments notified by the Italian authorities. In the 2017 Restructuring Decision, the Commission concluded that the 2017 Restructuring Plan and the 2017 Commitments provided for an appropriate own contribution and burden-sharing, sufficient safeguards to limit distortions of competition, and restructuring measures to restore the Bank’s long-term viability. On that basis, the Commission found that the aid measures in question fulfilled the

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5 See footnote 4.
6 See footnote 4.
7 See footnote 4.
9 In 2017, MPS issued State guaranteed senior liabilities (by only partially using the maximum amount of aid granted) which, as of end of December 2021, have been entirely repaid.
requirements of Article 107(3)(b) TFEU and were compatible with the internal market for reasons of financial stability. In the 2019 Amendment Decision, the Commission found that the 2019 Amendments did not alter the compatibility of the aid with the internal market as assessed in the 2017 Restructuring Decision and decided not to raise any objection.

(16) Based on the 2017 Restructuring Plan\(^\text{10}\), the following elements were key to the Bank's restructuring, in order to restore its long-term viability by 31 December 2021 (i.e. the end of the restructuring period under the 2017 Restructuring Decision):

(i) an increase of the Bank's efficiency;

(ii) the hive-off of a large bad loans portfolio;

(iii) an overhaul of the Bank's credit risk management processes.

(17) The main elements of the existing Commitments\(^\text{11}\) were the following:

(i) Commitment 1 – Burden-sharing: Italy had to implement the conversion of the outstanding Additional Tier 1 and Tier 2 instruments as well as any other subordinated instruments issued by the Bank, prior to the granting of State aid\(^\text{12}\).

(ii) Commitments 2-6 – Acquisition Ban, Coupon Ban on existing instruments, Dividend Ban, Advertising Ban, Sustainable commercial policy and ban on aggressive pricing strategies: the Bank was thereby subject to a series of behavioural constraints.

(iii) Commitment 7 – Remuneration of the Bank's Employees and Managers: the Bank had to apply strict executive remuneration policies. The total remuneration of any individual was not to exceed 10 times the average salary of the employees of the Bank in 2016.

(iv) Commitment 8 – Liability Management Exercises: the Bank could only implement liability management exercises ("LMEs") subject to certain pricing safeguards and the Commission’s approval.

(v) Commitment 9 – Cost reduction measures: the Bank had to reach the following cost-cutting targets (with some tolerance margins) by 31 December 2021:

(a) The number of branches in Italy had to be reduced to 1372;

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\(^\text{10}\) See Section 2.3 of the 2017 Restructuring Decision for additional details.

\(^\text{11}\) This refers to the 2017 Commitments, read together with the 2019 Amendments. Only the main elements of the existing Commitments are listed in this paragraph. For a detailed outline of the commitments, reference is made to the Annex to the 2017 Restructuring Decision and the Annex to the 2019 Amendment Decision.

\(^\text{12}\) Such conversion would result in EUR 4.3 billion of new CET1 capital. See recital (106) of the 2017 Restructuring Decision.
(b) The number of employees (banking and non-banking activities) had to be reduced to 19,985 (if MPS’ French and Belgian subsidiaries had been divested by 30 June 2018) or 20,085 (if they had not been divested);

(c) The cost-to-income ratio was not to exceed 50.6% (if MPS’ French and Belgian subsidiaries had been divested) or [45-55]% (if they had not been divested);

(d) Total operating costs were not to exceed EUR 2,160 million (if MPS’ French and Belgian subsidiaries had been divested) or EUR [1,900 – 2,300] million (if they had not been divested);

(e) If the “net margin” as projected in the 2017 Restructuring Plan was not achieved, and the return on equity was also below certain levels, the Bank had to introduce additional cost reductions of up to EUR 100 million (de facto resulting in a stricter total operating costs’ target than described in recital (17)(v)(d)).

(vi) Commitment 10 – Balance Sheet Targets: the Bank also had to reach, by 31 December 2021, certain targets defined on its balance sheet, notably bringing:

(a) its total balance sheet below EUR 145 billion;

(b) the net LTD ratio to 87%.

(vii) Commitment 11 – Sale of the State participation: Italy had to sell all shares in the Bank, on market terms through an open, unconditional and non-discriminatory sales process, by […].

(viii) Commitments 12-13 – Risk Management and Credit Policies, Provisions related to connected borrowers: the Bank was required to set up and implement sound risk management and credit policies. In addition, point k of Commitment 12 required the Bank to price deposits so as to align its deposits rate to that of the Italian banking system by 2021, with a tolerance margin of [0-10] basis points.

(ix) Commitment 14 – Disposal of participations and businesses: The Bank had to undertake certain disposal actions, namely:

(a) the divestment of certain businesses, including its merchant acquiring business, and its Belgian and French subsidiaries (MPS Belgium and MP Banque, respectively) by […], or otherwise wind them down;

(b) the reduction of its leasing portfolio from EUR 3.7 billion in 2016 to EUR 2.6 billion by 31 December 2021.

(x) Commitment 15 – Closure of foreign branches: the Bank had to close its branches in New York, London and Hong Kong by […].

(xii) Commitment 17 – Disposal of real estate: the Bank had to dispose of EUR 500 million of real estate properties by 31 December 2021.

(xiii) Commitment 18 – Disposal of non-core equity holdings: the Bank had to dispose by 31 December 2021 of:

(a) certain non-core equity holdings\(^{13}\) with an aggregate carrying value (as at 31 December 2016) of circa EUR [40-50] million;

(b) other holdings\(^{14}\) with aggregate carrying value (as at 31 December 2016) of circa EUR 317 million, […];

(c) other minority stakes it held on a best-efforts basis.

(xiv) Commitment 19 – Disposal of the art collection: the Bank had to dispose of the artworks that formed its art collection by 31 December 2021, subject to certain safeguards.

(xv) Commitment 20 – Separate management of Italy's stake in State-owned banks: Italy had to ensure that each State-owned bank remained a separate economic unit with independent powers of decision.

(xvi) Commitment 21 – Reduction of Italian sovereign bonds in the available-for-sale (“AFS”) category: the outstanding nominal amount of Italian sovereign bonds held in the AFS balance sheet category had to be reduced to EUR [10-20] billion by the end of 2021.

(xvii) Commitment 22 – Financial markets / proprietary trading: certain activity and risk limits were imposed on the Bank’s trading activity.

(xviii) Commitment 23 – Monitoring trustee: full and proper implementation of all commitments had to be monitored by an independent monitoring trustee.

(xix) Commitment 24 – Strengthening of the Bank’s capital position: the Bank had to strengthen its capital position through the following operations:

(a) the issuance of Tier 2 instruments with a total nominal value (i) of at least EUR 700 million by 31 March 2018, and (ii) of at least EUR 750 million by 31 December 2020;

(b) the sale of certain senior mezzanine notes to private parties by 30 June 2018.


2.3. The Implementation of the 2017 Restructuring Plan and of the existing Commitments

(18) As of 31 December 2021, MPS complied with the existing Commitments, save for the ones referred to in recital (19). In particular, the following commitments were met by a relatively large margin:

(i) Commitment 16 – Disposal of NPLs (see recital (17)(xi)): the Bank continued reducing its non-performing exposures (“NPEs”), after having fulfilled the commitment of disposing of a bad loans portfolio with a GBV of EUR 26.1 billion by mid-2018. In fact, the Bank reduced its gross NPEs by further EUR 13 billion in the period 2019-20, bringing its gross NPE ratio from around 34.5% at the end of 2016 to below 4% in 2021 (i.e. well below 12.9% that was projected in the 2017 Restructuring Decision).

(ii) Commitment 21 – Reduction of Italian sovereign bonds in the AFS category (see recital (17)(xvi)): the reduction of the stock of Italian sovereign bonds in the AFS category continued beyond the target set by the commitment (i.e. EUR [10-20] billion threshold at the end of 2021). The nominal value of the Italian government bonds in the fair value through other comprehensive income (FVTOCI) category stood at EUR 4.45 billion at the end of 2021, below the target [...].

(iii) Commitment 24 – Strengthening of the Bank’s capital position (see recital (17)(xix)): the Bank ultimately raised EUR 1.75 billion in Tier 2 capital, i.e. EUR 300 million more than the minimum amount of EUR 1.45 billion required by that commitment.

(19) Despite those efforts, the Bank did not manage to meet (some parts of) other commitments. This is the case for:

(i) Commitment 9, related to cost reduction measures, as summarised in recital (17)(v). The Bank’s total number of employees (21244) and cost-to-income ratio (72%) at the end of 2021 did not meet the applicable targets. However, the Bank’s total number of branches (1368) and the total operating costs (EUR 2106 million) complied with the applicable targets.

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16 See footnote 4.

17 See recital (59) of the 2017 Restructuring Decision.

18 This category may be considered to replace the AFS category, following the entry into force of the International Financial Reporting Standard 9.

19 The Bank completed Tier 2 issuances of (i) EUR 750 million on 11 January 2018, (ii) EUR 300 million on 16 July 2019, (iii) EUR 400 million on 15 January 2020 and (iv) EUR 300 million on 3 September 2020.
(ii) Commitments 10 and 12, as summarised in recitals (17)(vi) and (17)(viii). The Bank did not manage to meet the targets for the LTD ratio and deposit pricing, as respectively set by points b of commitment 10 and k of commitment 12, while complying with the other requirements set by those commitments. The Bank reached a LTD ratio of around [87-90]%\(^{20}\) (compared to a target of 87%) and exceeded the Italian banking system’s deposits rate by [10-20] basis points (i.e. above the tolerance margin of [0-10] basis points).

(iii) Commitment 11, related to the sale of the State participation, as summarised in recital (17)(vii). Despite the efforts made by Italy and the Bank\(^{21}\), the disposal of the State’s participation in the Bank by […] has not taken place.

(iv) Commitment 14, as summarised in recital (17)(ix), related to certain divestments. Notably, while certain divestments have been executed\(^{22}\), MP Banque was not sold nor fully wound down, and the leasing portfolio held by the Bank stood at circa EUR 3.3 billion at the end of 2021, i.e. circa EUR 700 million above the target.

(v) Commitments 17 and 18, as summarised in recitals (17)(xii) and (17)(xiii), related to certain other divestments. Out of the EUR 500 million of real estate properties to be sold by the end of 2021, EUR 100 million in real estate assets have not been disposed of. Out the circa EUR [350-370] million in non-core equity holdings\(^{23}\) to be disposed of, EUR [250-300] million in holdings has not yet been disposed of\(^{24}\).

2.4. New commitments by the Italian authorities

(20) In view of the delays in the implementation of some of the existing Commitments, the Italian authorities want to amend the commitments and extend the restructuring period. To that end they have notified a new set of commitments (the “New Commitments”), which would take effect on the date of adoption of this Decision and would replace the existing Commitments. The restructuring period would end on […] and the New Commitments would apply throughout the restructuring period unless stated otherwise.

(21) More specifically, the New Commitments, which are annexed to this decision, contain the following main elements:

(i) New Commitments 1 (Acquisition ban), 2 (Dividend ban), 3 (Advertising ban), 4 (Sustainable commercial policy and ban on aggressive pricing

\(^{20}\) […]

\(^{21}\) See recital (22)(iv) for more details.

\(^{22}\) For example, the Bank sold its merchant acquiring business on 30 June 2017 for EUR [500-550] million and closed the sale of the Belgian subsidiary on 14 June 2019.

\(^{23}\) This is without considering the holdings that the Bank committed to sell on a best-efforts basis.

\(^{24}\) The Bank has not sold its stake in Bank of Italy, which is worth around EUR 190 million, nor its participations in MPS Tenimenti Poggio Bonelli e Chigi Saracini S.p.A. and Immobiliare Novoli S.p.A.

(ii) New Commitment 5 (Remuneration of the Bank’s Employees and Managers) continues constraining the Bank’s remuneration policy. The remuneration of any employee shall not exceed 10 times the average 2022 salary of the Bank’s employees. The remuneration of some personnel in key functions would not be subject to the cap in case of fulfilment of the commitment on the disposal of the State participation.

(iii) New Commitments 6 (Number of branches), 7 (Number of employees), 8 (Cost-income ratio), 9 (Total operating costs) renew some cost-cutting measures and set revised targets. By the end of 2024, the Bank’s headcount and number of branches will have to be reduced to 17 634 and 1 258 respectively; the operating costs will have to reach EUR 1 872 million and the cost-to-income ratio will have to reach 60% (or higher depending on the market’s evolution)\(^{25}\), with tolerance margins and interim targets.

(iv) New Commitments 10 (Balance sheet target) and 11 (Loan to deposit ratio) respectively set targets on the size of the Bank’s balance sheet (EUR [140-150] billion) and on its LTD ratio (87% with some tolerance margins), to be reached by the end of 2024.

(v) New Commitment 12 (Disposal of the State participation) requires Italy to dispose, by […], of its shareholdings in the Bank […] to an extent that at least […] implies the sale of the number of shares in the Bank that Italy acquired in the context of the 2017 precautionary recapitalisation. In addition, once the New Commitment 12 is fulfilled, all New Commitments will cease to apply, with the following exceptions:

(a) in case of disposal of the State participation in the Bank by means of a merger of the Bank with another institution, only New Commitments 6, 15 and 22 continue to apply until […];

(b) in all other cases of disposal of the State participation in the Bank, only New Commitments 2, 3, 4, 6, 7, 8, 13, 14, 15, 16, 17, 18, 20, 21 and 22 continue to apply until […].

(vi) New Commitment 13 (Pricing deposits) requires the Bank to continue to price deposits contracted or renewed as to keep the pricing in line with that of the Italian banking system by the end of 2024, with tolerance margins. In addition, the Bank must continue not to price credit or other loan business granted after the date of the adoption of the 2017 Restructuring Decision below the market average of products with the same characteristic.

(vii) New Commitments 14 (MP Banque) and 15 (Leasing Portfolio) require the Bank to (i) wind down MPS’ French subsidiary and (ii) divest EUR [0-5]\(^{25}\)

\(^{25}\) The 60% target is broadly in line with the projected average levels of the peer banks for 2024, as implied e.g. by recent equity analysts’ consensus for Banca BPM and BPER. Should the actual average levels for the peers turn out to be higher than 60%, the target would adjust accordingly.
billion of its leasing portfolio (with an expected residual size of the portfolio of EUR [0-5] billion), by the end of 2024.

(viii) New Commitment 16 (Non-performing loans) requires the Bank not to exceed an NPL ratio equal to 4% (or higher depending on the market’s evolution)\(^{26}\), with some tolerance margins, until the end of 2024.

(ix) New Commitments 17 (Disposal of real estate) and 18 (Disposal of non-core equity holdings) require the Bank to dispose by the end of 2024, respectively, of (i) real estate assets for an amount of EUR 100 million, and (ii) certain non-core equity holdings\(^{27}\) corresponding to a carrying value (as of 31 December 2021) of circa EUR [80-90] million or alternatively the stake in Bank of Italy corresponding to a carrying value (as of 31 December 2021) of circa EUR 190 million.

(x) New Commitment 19 (Closure of foreign branch) requires the Bank to close its branch in Shanghai by the end of 2024.

(xi) New Commitment 20 (Separate management of Italy’s stake in State owned banks) continues to require Italy to ensure that each State-owned bank remains a separate economic unit with independent powers of decision.

(xii) New Commitment 21 (Maintenance of certain 2017 commitments) requires the Bank not to reverse the content of its internal credit and risk management policies and guidelines, as resulting from the implementation of the existing Commitments 12, points a-j, 13 and 22\(^{28}\).

(xiii) New Commitment 22 (Monitoring Trustee) requires the appointment of an independent trustee to monitor the implementation of all New Commitments.

2.5. Position of Italy

(22) The Italian authorities impute the inability to meet all the existing Commitments, by the end of the restructuring period, mainly to contingent circumstances worsened by the outbreak of the COVID-19 pandemic and the consequent deterioration of the Italian and European economy. Those adverse economic conditions prevented the Bank from reaching satisfactory conditions of economic-financial equilibrium, forcing the prioritization of certain management goals over others. […].

(i) The Italian authorities submit that one important factor that affected the Bank’s income capacity was the lower than expected level of interest rates (See Table 1). Considering that approx. EUR [30-40] billion of the Bank’s portfolio (including floating rate medium-term loans and short-term loans)

\(^{26}\) The 4% target is broadly in line with the current levels of the peer banks (see the EBA Risk Dashboard as of 1Q 2022, available at: https://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard). Should the actual average levels for the peers turn out to be higher than 4%, the target would adjust accordingly.

\(^{27}\) Namely, the Bank’s participations in Visa, Bancomat, Veneto Sviluppo, MPS Tenimenti Poggio Bonelli e Chigi Saracini S.p.A., and Immobiliare Novoli S.p.A.

\(^{28}\) As summarised in recitals (15)(viii) and (15)(xvii).
was subject to repricing, Italy claims that the Bank missed circa EUR [250-350] million of interest income per each percentage point in rates lower than expected.

Table 1: 2017 Projections and actual data

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<tr>
<td><strong>Euribor (1 Month)</strong></td>
<td>Expected</td>
<td>-0.2%</td>
<td>0.1%</td>
<td>0.6%</td>
</tr>
<tr>
<td></td>
<td>Actual</td>
<td>-0.3%</td>
<td>-0.4%</td>
<td>-0.47%</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>Expected</td>
<td>1.0%</td>
<td>0.9%</td>
<td>0.8%</td>
</tr>
<tr>
<td></td>
<td>Actual</td>
<td>0.9%</td>
<td>0.5%</td>
<td>-9.0%</td>
</tr>
</tbody>
</table>

(ii) In that context, the Bank prioritised the so-called Hydra transaction, enabling the transfer of bad loans with a GBV of EUR 8 billion in 2020 to AMCO. While that operation allowed a substantial reduction in the Bank’s NPL ratio (thereby making the Bank more attractive for a potential buyer, which, according to Italy, was confirmed by the reduction of the 2021 Pillar 2 requirement), it also reduced the Bank’s equity (by circa EUR 1 billion), thereby limiting its capacity to implement additional structural measures to reduce costs and increase efficiency, as envisaged under existing Commitment 9, and it further reduced the net interest margin (by forgoing the contribution that would be otherwise generated by those NPLs, if they had remained on the Bank’s balance sheet).

(iii) Italy claims that the need to prioritise certain actions partially explains why the Bank missed some divestment commitments. For example, with regard to the disposal of the leasing portfolio, as envisaged under existing Commitment 14, Italy submits that the personnel was diverted towards a project aimed at selling a wider portfolio of assets (including leasing assets) in the context of the sale of the State participation. Doing so precluded the Bank from pursuing the separate disposal of the leasing assets and, when the negotiations on the sale of the State participation were discontinued, the Bank found itself incapable of fulfilling the target. Similarly, Italy submits that, at the end of 2020, the Bank presented to its board of directors a hypothesis of EUR [100-150] million real estate to be sold, under the existing Commitment 17, but the activities for the sale of that portfolio were kept on hold, pending the sale of the State participation.

(iv) With regard to the sale of the State participation, as envisaged under existing Commitment 11, Italy claims to have made all necessary efforts to meet the commitment and that its failure was beyond its control. A Presidency Decree was issued on 16 October 2020, allowing for the privatisation. In January 2021, the Bank arranged a data room to allow a due diligence on its accounts. Two economic operators accessed it: a private equity fund, with which the talks with the Italian authorities had no successful outcome; and

a primary Italian banking group, with which the talks formally started by the end of July 2021. After a three-month negotiation, a substantial and unsolvable divergence arose between the two counterparties, mainly concerning the amount of the Bank’s capital increase requested by the buyer to assure its capital neutrality and the consideration offered by the buyer for acquiring the Bank’s perimeter. In October 2021, the negotiation was consensually discontinued. After that event, insufficient time remained until the deadline to reasonably identify other possible buyers and to finalize a sales process.

(23) Italy claims that the notified amendments do no constitute new aid and do not entail any change to the overall balance of the 2017 Restructuring Decision. In particular, Italy claims that the New Commitments constitute largely a continuation of the pre-existing commitments and that there are several additional commitments constituting compensatory measures providing a similar balance with reference to the compatibility parameters of viability, burden-sharing, own contribution and minimisation of competition distortions as that of the 2017 Restructuring Decision.

(i) Italy submits that the set of New Commitments (in particular 6-9 and 16) steers the Bank towards the goal of reaching, by the end of the prolonged restructuring period, minimum sufficient conditions of economic-financial equilibrium, including adequate profitability, as set out in Table 2, based on the macro-economic projections summarised in Table 3. Among others, the Bank is set to lower its operating costs and keep the NPLs to low levels.

Table 2: Key financial indicators 2022-2026 (EUR Billions)

<table>
<thead>
<tr>
<th>(EUR Billions)</th>
<th>2022E</th>
<th>2023E</th>
<th>2024E</th>
<th>2025E</th>
<th>2026E</th>
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<td>Operating income</td>
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<td>[-0-5]</td>
<td>-1.89</td>
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<td>of which personnel cost</td>
<td>[-0-5]</td>
<td>[-0-5]</td>
<td>-1.21</td>
<td>[-0-5]</td>
<td>-1.25</td>
</tr>
<tr>
<td>Net profit</td>
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<td>[0-5]</td>
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<td>[0-5]</td>
<td>0.83</td>
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<td>[120-150]</td>
<td>[120-150]</td>
<td>[120-150]</td>
<td>[120-150]</td>
</tr>
<tr>
<td>Total own funds</td>
<td>[5-10]</td>
<td>[5-10]</td>
<td>[5-10]</td>
<td>[10-20]</td>
<td>[10-20]</td>
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<td>[50-60]</td>
<td>[50-60]</td>
<td>56.5</td>
<td>[50-60]</td>
<td>58.1</td>
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<td>[0-5]</td>
<td>[10-20]</td>
<td>[5-10]</td>
<td>[5-10]</td>
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<tr>
<td>Cost-income ratio (%)</td>
<td>[70-80]</td>
<td>[60-70]</td>
<td>[55-65]</td>
<td>[50-60]</td>
<td>[50-60]</td>
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<tr>
<td>T1 ratio (%)</td>
<td>[10-20]</td>
<td>[10-20]</td>
<td>[10-20]</td>
<td>[10-20]</td>
<td>[10-20]</td>
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<tr>
<td>Total capital ratio (%)</td>
<td>[10-20]</td>
<td>[10-20]</td>
<td>[10-20]</td>
<td>[10-20]</td>
<td>[10-20]</td>
</tr>
</tbody>
</table>

12
Table 3: Key macro-economic assumptions 2022-2026

<table>
<thead>
<tr>
<th>Key macro-economic assumptions</th>
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<td>GDP (% YoY)</td>
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<td>Spread BTP-Bund (bps year avg)</td>
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<td>Euribor 3m (pp year avg)</td>
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<td>IRS 20 Y (pp year avg)</td>
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(ii) Italy mentions the following compensations ensuring the preservation of the balance of the 2017 Restructuring Decision: lower number of branches (as envisaged under New Commitment 6), lower number of employees (as envisaged under New Commitment 7), lower total balance sheet size (as envisaged under New Commitment 10), lower leasing portfolio size (as envisaged under New Commitment 15), closure of an additional foreign branch (as envisaged under New Commitment 19), compared with the targets envisaged under the 2017 Restructuring Plan.

(iii) Italy finally submits that the deadline envisaged for the sale of the State participation (as set under New Commitment 12) is consistent with [...]. Furthermore, the final deadline takes into consideration the length of the sale process, which includes the time needed for the Italian authorities to identify a potential buyer, to define the operation and the conditions for the disposal, to negotiate the terms with the counterparty, and finally to close the operation.

3. ASSESSMENT

3.1. Existence of aid

(24) According to Article 107(1) TFEU, State aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings, in so far as it affects trade between Member States.

(25) In the 2017 Restructuring Decision, the Commission concluded that the existing Measures constitute State aid within the meaning of Article 107(1) TFEU\(^{30}\). The 2019 Amendment Decision did not alter that conclusion. The Commission observes that the Notified Amendments do not entail any additional State aid to MPS.

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\(^{30}\) See Section 4.1 of the 2017 Restructuring Decision.
3.2. Compatibility of the aid

(26) In the 2017 Restructuring Decision, the Commission concluded that the existing Measures fulfilled the requirements of Article 107(3)(b) TFEU and were compatible with the internal market for reasons of financial stability. In particular, the Commission concluded that (i) the 2017 Restructuring Plan was apt to restore the Bank’s long-term viability; (ii) adequate burden-sharing was achieved; and (iii) there were sufficient safeguards to limit undue distortions of competition. The 2019 Amendment Decision did not alter the overall balance of the aid measures to the Bank and the commitments provided by Italy and therefore did not alter that conclusion.

(27) The Commission observes that Italy has not (or it has only partially) complied with some of the existing Commitments, i.e. 9, 10, 11, 12, 14, 17, 18, notably because certain cost-cutting measures (e.g. personnel), divestments (e.g. French subsidiary, leasing portfolio, real estate and non-core equity holdings) and the disposal of the State’s stake in the Bank have not been (fully) implemented (see recital (19) for more details). The Commission notes that the Italian authorities notified a list of commitments in replacement of the existing Commitments entailing, inter alia:

(i) The prolongation without significant modifications (or a confirmation in substance) of the existing Commitments 2, 4, 5, 6, 12, 13, 20, 22, 23, through the New Commitments 1-4 and 20-22, notably regarding some behavioural and risk management constraints, which have been respected up to date;

(ii) The prolongation, with modifications, of the existing Commitments 7, 9, 10, 11, 14, 16, 17, 18, through the New Commitments 5-19, notably regarding the disposal of the State’s stake in the Bank, and the cost-cutting and divestment measures, which have not been fully implemented and are confirmed with prolonged deadlines and updated targets.

31 See recital (139) of the 2017 Restructuring Decision.

32 See recital (31) of the 2019 Amendment Decision.

33 As summarised in recitals (14)(ii), (14)(viii), (14)(xv), (14)(xvii), (14)(xviii).

34 As summarised in recitals (18)(i), (18)(xi)-(18)(xiii).

35 Except for point k of existing Commitment 12, regarding the deposit pricing, the marginal breach of which is addressed by New Commitment 13.


37 As summarised in recitals (18)(ii)-(18)(x).

38 Except for existing Commitments 7 and 16, regarding respectively the remuneration policy and the NPLs, which have been met and are still prolonged with some modifications.
(iii) The discontinuation of the existing Commitments 1, 3, 8, 15, 19, 21, 24,\textsuperscript{39} notably regarding other divestments and capital-strengthening initiatives that have been completed.

(28) A restructuring decision can in principle be amended by the Commission if the amendment does not entail any additional aid and the modification is based on new commitments which can be considered equivalent to those originally provided.\textsuperscript{40} In that situation, the existing aid measures would remain compatible on the basis of Article 107(3)(b) TFEU if the overall balance of the original decision is maintained. For the original balance to remain intact, the altered commitments should not negatively affect the viability of the aid beneficiary and the overall set of commitments should remain equivalent in terms of burden-sharing and measures to limit undue distortions of competition, taking into account the requirements of the Restructuring Communication\textsuperscript{41}.

3.2.1. Considerations on viability

(29) In the 2017 Restructuring Decision, the Commission considered that the 2017 Restructuring Plan and the related commitments were apt to restore the Bank's long-term viability.\textsuperscript{42} The 2019 Amendment Decision did not change that conclusion\textsuperscript{43}.

(30) In the absence of additional aid, the Commission will not assess the viability of MPS entirely anew. The Commission will only examine whether the New Commitments have an equivalent effect on MPS' viability as the existing Commitments and whether it can – on that basis – confirm its conclusion of the 2017 Restructuring Decision as to MPS’ viability\textsuperscript{44}.

(31) The Commission takes note of the fact that the Bank has undertaken several actions so far that have positively contributed to its ability to return to viability.

(i) First, the Commission observes that the Bank has significantly reduced some relevant balance sheet risks. Notably, it has offloaded its stock of

\textsuperscript{39} As summarised in recitals (14)(i), (14)(ii), (14)(iv), (14)(x), (14)(xiv), (14)(xvi), (14)(xix).


\textsuperscript{41} Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules (OJ C 195, 19.8.2009, p. 9).

\textsuperscript{42} See recital (100) of the 2017 Restructuring Decision.

\textsuperscript{43} See recital (27) of the 2019 Amendment Decision.

\textsuperscript{44} See along similar lines, for instance, SA.43365 (2019/N-2) Amendment of the restructuring plan of National Bank of Greece approved in 2015, OJ C 226, 5.7.2019, p. 1, notably recital (32); see also, recital (23) of the 2019 Amendment Decision.
NPLs beyond the levels requested under the existing Commitments and projected under the 2017 Restructuring Decision (see recital (18)(i)), and it has taken concrete steps to implement sound credit and risk management policies, in compliance with the existing Commitments 12, 13 and 22 (see recitals (17)(viii) and (17)(xvii)).

(ii) Second, the Commission recalls that the Bank has started refocusing, although with delays, on its core domestic retail banking business. Though it has not yet divested MP Banque, it has divested MPS Belgium and closed its foreign branches in New York, London and Hong Kong.

(iii) Third, the Commissions notices that the Bank has addressed some of its operational inefficiencies, having reduced its branches and its costs to the level required under the 2017 Restructuring Decision. However, the Bank’s inability to further reduce its structural personnel cost, combined with lower-than-expected revenues (largely due to the low interest rate environment, which continued for longer than expected in the macroeconomic assumptions underlying the 2017 Restructuring Decision)\(^{45}\), has resulted in a significantly higher cost-to-income ratio than targeted under the 2017 Restructuring Decision (see recital (19)(i)).

(iv) Finally, the Commission observes that the Bank has reduced its portfolio of domestic government bonds beyond the level required under the 2017 Restructuring Decision (see recitals (18)(ii)) and its LTD ratio from [100-150]% in 2017\(^{46}\) to around [87-90]% in 2021 see recital (19)(ii)). It has also complied with strict remuneration policies (see recital (17)(iii)).

(32) Accordingly, the Commission considers that MPS has addressed several of the main weaknesses identified at the time of the 2017 Restructuring Decision.\(^{47}\) However, in conjunction with the still recorded deviations in the implementation of the restructuring plan, MPS has recorded a return on equity of circa 5.0% in 2021 (see recital (8)), below the level projected under the 2017 Restructuring Decision\(^{48}\).

(33) The Commission considers that the proposed amendments to the existing Commitments, as entailed by the New Commitments, adequately remedy the breaches of the existing Commitments and are apt to restore the Bank’s viability in an equivalent manner as the existing Commitments. In particular:

(i) The Commission positively observes that the Bank commits to maintain its NPL ratio at around the current low level (see recital (21)(viii)), and not to reverse the credit and risk management policies implemented to date in accordance with the 2017 Restructuring Decision (see recital (21)(xii)).

\(^{45}\) See recital (22)(i) and Table 1.
\(^{46}\) See commitment 10, as described in the Annex to the 2017 Restructuring Decision.
\(^{47}\) See recitals (93)-(99) of the 2017 Restructuring Decision.
\(^{48}\) See recital (43) of the 2017 Restructuring Decision.
(ii) The Commission positively notes that the Bank commits to continue addressing its operational inefficiencies, by undertaking additional cost-cutting measures, e.g. in terms of staff reduction, to offset the negative economic impact of their delayed implementation and to ultimately lower its operating costs further. Doing so should allow the Bank to lower its cost-to-income ratio by 2024 to the new targets (see recital (21)(iii)).

(iii) The Commission observes that both the targets on NPL ratio and cost-to-income ratio are defined as the higher between (i) an absolute level and (ii) the average level of comparable Italian banks. The Commission recalls that the absolute levels that are set for the Bank on NPLs and cost-to-income ratio are in line with, respectively, the current average levels of the peer banks and their projections for 2024. Higher targets will only be tolerated in case of a systemic event affecting the Italian banking sector more broadly (since they will be based on the average level of comparable Italian banks). Therefore, the Commission considers that that target-setting mechanism gives the Bank flexibility during circumstances beyond its control, while preserving the aim of restoring viability.

(iv) The Commission positively observes that the Bank will continue refocusing itself on the domestic retail market, as it confirms the plan to wind-down, although with delays, MP Banque and will additionally close its branch in Shanghai (see recitals (21)(vii)) and (21)(xi)). In addition, the Commission positively notices that the Bank continues to commit to a stable LTD ratio (see recitals (17)(vi)(b) and (21)(iv)).

(34) The Commission considers that the other amendments to the existing Commitments do not negatively affect the Bank’s viability. Notably:

(i) The Commissions considers that the update of the remuneration cap, which now refers to the 2022 average salary levels, is reasonable in light of the time elapsed since the 2017 Restructuring Decision. The exemption for a small number of senior managers and key function holders (see recital (21)(ii)) does not significantly affect the Bank’s total operating costs, given the relatively small estimated costs arising from that exemption and the fact that the exemption only applies after the sale of the State’s participation in the Bank.

(ii) The Commission considers that the discontinuation of the existing Commitments 21 and 24 (see recitals (17)(xvi) and (17)(xix)), regarding respectively the reduction of the government bonds held in the AFS category and the implementation of the Tier 2 issuances, is justified by the fact that both commitments have been fully met and are no longer relevant. Similarly, the discontinuation of the existing Commitment 8 (as summarised in recital (17)(iv)), which provided that LME could be undertaken subject to certain conditions and which has been fulfilled, does not alter the Commission’s assessment as to the Bank’s viability. Finally, the discontinuation of the existing Commitment 9(e) (as summarised in recital (17)(v)(e)), which set a target for the Bank’s net margin, is explained by its redundancy in view of the combined targets on total operating costs.

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49 See footnotes 25 and 26.
In light of all the above, the Commission concludes that the New Commitments have an equivalent effect on MPS’ ability to restore viability as the existing Commitments.

3.2.2. Considerations on burden-sharing and own contribution

In the 2017 Restructuring Decision, the Commission concluded that Italy had committed to sufficient measures ensuring adequate burden-sharing\(^{50}\). The 2019 Amendment Decision did not entail additional aid and did not concern burden-sharing, and, therefore, did not change that conclusion\(^{51}\).

The Commission notes that the Bank has implemented the measures envisaged to ensure burden-sharing and own contribution to the extent that it has:

(i) complied with the coupon, dividend and acquisition bans (see recitals (17)(ii));

(ii) converted its Tier 2 and Additional Tier 1 instruments, as outstanding at the moment of the 2017 Restructuring Decision, generating more than EUR 4 billion in capital\(^{52}\) (see recital (17)(i));

(iii) sold its merchant acquiring business for EUR [0.50-0.55] billion and disposed of its art collection to the extent required under the existing Commitments (see recitals (17)(ix)(a), (17)(xiv) and (19)(iv));

However, the Commission also observes that the Bank has not reached the target to dispose of EUR 500 million in real estate assets and circa EUR [350-370] million in non-core equity holdings for burden-sharing and own contribution purposes: the Bank has not yet disposed of circa EUR 100 million in real estate assets and circa EUR [250-300] million in non-core equity holdings, at the value of 31 December 2021 (see recital (19)(v)).

The Commission observes that those circa EUR [350-400] million pending divestments bear a relatively limited effect on the aggregate own contribution and burden-sharing envisaged under the 2017 Restructuring Decision and implemented to date, given that the Bank has divested assets, for own contribution purposes, for an amount of circa EUR [1-1.05] billion\(^{53}\) and generated capital through the conversion of existing Tier 2 and Tier 1 instruments, for burden-sharing purposes, for more than EUR 4 billion. The Commission also observes that the Bank has

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\(^{50}\) See recital (110) of the 2017 Restructuring Decision.

\(^{51}\) See recital (30) of the 2019 Amendment Decision.

\(^{52}\) It should be noted however that there are pending legal actions launched by some holders of instruments subject to burden-sharing, aiming at unwinding the effects of the burden-sharing measures on their instruments.

\(^{53}\) This includes the EUR [500-550] million proceeds from the sale of the merchant business, envisaged under the existing Commitment 14, and the circa EUR 500 million nominal amounts of real estate and equity holdings, aggregately divested in accordance with the existing Commitments 17 and 18.
furthermore issued new Tier 2 instruments for an amount of EUR 1.75 billion, thus generating capital (of Tier 2 nature) and cash for an amount that exceeds by EUR 300 million the target (EUR 1.45 billion) set under the existing Commitment 24 (see recital (18)(iii)).

(40) In addition, the Commission observes that the commitments to dispose of real estate assets and non-core equity holdings are maintained, albeit with an extended deadline (i.e. by 31 December 2024) and based on an adjusted mechanism (see recitals (17)(xiii) and (21)(ix)). The Bank will have to divest real estate assets for the entire remaining amount of EUR 100 million. It will also have to divest either certain non-core equity holdings, corresponding to a carrying value (as of 31 December 2021) of EUR [80-90] million, or its participation in Bank of Italy, corresponding to a carrying value (as of 31 December 2021) of EUR 190 million; in either case, the equity divestments would be smaller than the equity holdings not yet divested under the existing commitments, corresponding to a carrying value (as of 31 December 2021) of EUR [250-300] million (see recital (38)). However, the envisaged equity divestments would not be subject to the existing conditionality that allows the Bank to avoid the disposal in case of [...]. Given the capital (and cash) raised by the Bank through the additional Tier 2 issuance and the relatively limited amounts at stake (as set out in recital (39)), the Commission considers that those amendments of the outstanding divestment commitments do not negatively affect the extent of the aggregate own contribution and burden-sharing envisaged under the 2017 Restructuring Decision.

(41) The Commission considers that the other amendments of the existing Commitments do not negatively affect the extent of the burden-sharing and own contribution. In particular, the Commission considers that the discontinuation of the existing Commitments 1, 3 and 19 (as summarised in recitals (17)(i), (17)(ii) and (17)(xiv)) regarding respectively the conversion of capital instruments, the coupon ban (applicable to the instruments outstanding when the existing Measures were granted) and the disposal of artworks is justified by the fact that those commitments have been completed54 or are no longer relevant.

(42) Finally, the Commission takes positive note of the prolongation of the dividend ban and the acquisition ban (see recital (21)(i)).

(43) In view of the above, the Commission concludes that the New Commitments are equivalent to the existing Commitments in terms of burden-sharing and own contribution.

3.2.3. Considerations on distortions of competition

(44) The 2017 Restructuring Decision found that the 2017 Restructuring Plan and the related commitments entailed sufficient measures limiting distortions of competition55. The 2019 Amendment Decision did not change that conclusion56.

54 There are no more outstanding instruments to which the conversion or the coupon ban can be applied.

55 See recitals (111)-(118) of the 2017 Restructuring Decision.

56 See footnote 51.
(45) The Commission notes that the Bank has complied with all behavioural constraints (including the bans on advertising, aggressive commercial policies and acquisitions) and that the implementation of the various measures aiming at minimising competition distortions has resulted in bringing the Bank’s total assets to EUR 138 billion in 2021, i.e. below the EUR 145 billion target for total assets set by the existing Commitment 10 (see recitals (8) and (17)(vi)(a)).

(46) However, the Commission also observes that the Bank has not fulfilled certain divestment commitments. Notably, MP Banque has not been sold nor fully wound down and the size of the Bank’s leasing portfolio – EUR 3.3 billion at the end of 2021 – is still circa EUR 700 million above the 2021 target (see recital (19)(iv)).

(47) With regard to the proposed amendments related to the measures aimed at minimising competition distortions, the Commission observes that the deadlines to implement the still outstanding divestments are prolonged from end-2021 to end-2024. However, the extension of the deadlines to divest is compensated by considerable additional down-sizing efforts:

(i) In fact, the Bank will have to reduce its leasing portfolio by EUR [0-5] billion more than envisaged under the existing Commitments, bringing it to a residual amount of EUR [0-5] billion, […];

(ii) In addition, the Bank will have to further reduce its footprint by decreasing the number of branches by an additional 8% compared to the target set for 2021, which might create commercial room for its competitors (see recitals (17)(v)(a) and (21)(iii)). The Bank will also additionally close its Shanghai branch (see recital (21)(x));

(iii) Moreover, the Bank will have to reduce its headcount by around 12% more than envisaged under the existing Commitments, which will also contribute to its reduced footprint (see recitals (17)(v)(b) and (21)(iii));

(iv) Ultimately, the Bank will continue to be subject to a cap on its balance sheet size, set EUR [0-10] billion lower than the 2021 target (see recitals (17)(vi)(a) and (21)(iv)), which also constrains the Bank’s footprint.

(48) The Commission considers that all those additional down-sizing efforts adequately compensate for the delays in the divestments intended to minimise competition distortions. The Commission welcomes those additional deleveraging efforts also in view of the prolongation of the deadline for the sale of the State’s participation in the Bank.

(49) The Commission takes positive note of the prolongation of the various behavioural constraints, such as the bans on acquisitions, advertising and aggressive commercial policies (see recital (21)(i)). The Commission takes also positive note of the prolongation of the requirement for the Bank to price its deposits in line with its peers (see recital (21)(vi)).

(50) Finally, the Commission considers that the other amendments of the existing Commitments do not negatively affect the extent of the measures to minimise competition distortions. In particular, the Commission considers that the discontinuation of the existing Commitment 15 (as described in recital (17)(x))
regarding the closure of the foreign branches (in New York, London and Hong Kong) is justified, as it has been implemented and is therefore no longer relevant.

(51) In light of all this, the Commission concludes that the proposed amendments of the existing Commitments ensure that competition distortions are still adequately mitigated.

3.2.4. Further considerations

(52) The Commission takes positive note of the fact that the New Commitments are to a certain extent […] thereby setting further incentives for a faster sales process. In conjunction with this, the Commission considers that the discontinuation of some New Commitments, as envisaged by new Commitment 12 (see recital (21)(v)), as soon as the State disposes of its stake in the Bank, i.e. before […], does not change its conclusions in recitals (35), (43) and (51) regarding the assessment of the preservation of the overall balance of the 2017 Restructuring Decision. In concluding so, the Commission distinguishes between (i) the disposal of the State’s stake in the Bank to an industrial partner, resulting in a merger whereby the Bank would de facto cease to exist as a separate undertaking (“merger scenario”) and (ii) other scenarios of disposal of the State’s stake in the Bank whereby the Bank would continue to be active on the market on a stand-alone basis (“stand-alone scenario”).

(53) In this respect, the Commission observes the following:

(i) With regard to viability:

(a) In the merger scenario, the Commission considers that the commitments related to restoring viability do not have to be maintained, given the ongoing efforts of the Bank in the past years and since the buyer […];

(b) In the stand-alone scenario, the Commission considers that the sale of the State’s stake in the Bank to another investor in line with market conditions could be considered as evidence of the Bank’s progress in restoring its viability. At the same time, the Commission takes positive note that key viability commitments on the gross NPL ratio, the cost-to-income ratio and the reduction of branches and headcount (see recitals (21)(iii), (21)(viii) and (33)) will continue to apply beyond the moment of the sale and until […].

(ii) With regard to burden-sharing and own contribution:

(a) In the merger scenario, the Commission notes that the requirement to divest certain assets, as identified for burden-sharing and own contribution by New Commitments 17 and 18, is discontinued. The Commission notes that this concerns assets corresponding to an aggregate carrying value (as of 31 December 2021) of circa EUR [180-190] or 290 million, which is relatively limited, compared to (i) the total divestments made by the Bank under such type of

57 The Bank would have to sell (i) real estate holdings for an amount of EUR 100 million and, in addition, (ii) either certain equity holdings corresponding to a carrying value of EUR [80-90] million or of its stake in Bank of Italy corresponding to a carrying value of EUR 190 million. (See recital (21)(x))
commitments (see recital (37)(39)), (ii) the total assets of the Bank (see recital (8)), and – accordingly – even more so (iii) the total assets of the combined entity resulting from the merger. The Commission further notes that the own contribution to be generated by those outstanding divestments is superseded by the possibility of the combined entity to undertake different divestments, which will be likely in view of the need to consolidate the two merging entities. Therefore, the Commission can accept the discontinuation of the commitment to divest those assets in a merger scenario.

(b) In the stand-alone scenario, the Commission positively observes that the commitments to implement the outstanding divestments are maintained.

(iii) With regard to mitigating competition distortions, the Commission takes positive note that the two main commitments playing a key role in compensating for the existing breaches, i.e. the reduction of the leasing portfolio (see recitals (21)(vii) and (47)(i)) and of the number of branches (see recitals (21)(iii) and (47)(ii)), are maintained until [...], in both scenarios.

(a) In the merger scenario, the Commission considers that competition distortions are also mitigated by the implied exit of the Bank from the market. Therefore, additional measures are not needed, while the two main commitments will be maintained until [...];

(b) In the stand-alone scenario, the Commission favourably observes that several other commitments are maintained, notably the bans on advertising and aggressive commercial policy, the wind-down of MP Banque, the reduction of the headcount and the alignment of the deposits pricing to the peer banks (see recitals (21)(i), (21)(vi), (21)(vii)). The Commission concludes that the prolongation of certain other commitments (i.e. the ban on acquisitions, the cap on the total size of the Bank’s balance sheet and the closure of the Shanghai branch) could represent a disproportionate constraint on the future shareholder(s) in the case at hand and could thus jeopardise the implementation of the privatisation commitment. Thus, the Commission considers the discontinuation as proportionate, given the relatively short period of time in which this is expected to produce effects (as a disposal will likely occur in [...] at the earliest) and the fact that several other commitments will be maintained until [...].

(54) In the 2017 Restructuring Decision, the Commission concluded that the conditions under which the existing Measures were granted were in line with the exemption provided for in Article 32(4)(d) BRRD58 and Article 18(4)(d) SRM-R59. Therefore, the aid measures did not trigger the “failing or likely to fail” criterion under the BRRD in relation to the Bank and can be implemented outside resolution60.

(55) In particular, the Commission concluded that aid in the form of a precautionary recapitalisation (as briefly described in recital (14)(ii)) was of temporary nature, as ensured by the fact that the Italian authorities committed to divest all their shares in the Bank by […]61.

(56) The Commission considers that the prolongation of the restructuring period to […] and the […] prolongation of the deadline (as defined in New Commitments 12 (see recital (21)(v)) for the State to divest of the shares acquired as a result of the precautionary recapitalisation, do not affect the assessment regarding the temporary nature of the aid. In particular, the Commission notes that the prolongation is limited in time and proportionate to the aim of completing the restructuring process.

(57) The Commission considers that none of the other amendments to the existing Commitments, as implied by their replacement by the New Commitments, entails any effect on the assessment made in the 2017 Restructuring Decision, with regard to compliance with the exemption provided for in Article 32(4)(d) BRRD and Article 18(4)(d) SRM-R.

(58) Therefore, the Commission concludes that the conditions under which the existing Measures were granted remains in line with the exemption provided for in Article 32(4)(d) BRRD and Article 18(4)(d) SRM-R.


60 See recital (137) of the 2017 Restructuring Decision.

61 See recital (131) of the 2017 Restructuring Decision.
5. CONCLUSION

In light of the above, the amendment of the existing Commitments by the New Commitments as listed in the Annex to this decision does not affect the conclusions reached in the 2017 Restructuring Decision. On this basis, the Commission concludes that the State aid provided to MPS in 2017 remains compatible with the internal market on the basis of Article 107(3)(b) TFEU.

The Commission notes that Italy exceptionally accepts the notified decision to be adopted and notified in the English language.

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European Commission,  
Directorate-General Competition  
State Aid Greffe  
B-1049 Brussels  
Stateaidgreffe@ec.europa.eu

Yours faithfully,

For the Commission

Margrethe VESTAGER  
Executive Vice-President
ANNEX: List of commitments by the Republic of Italy

COMMITMENT OF THE REPUBLIC OF ITALY TO THE EUROPEAN COMMISSION.

SA 103450 –Banca Monte dei Paschi di Siena - Amendment of SA.47677

The Italian authorities hereby provide the following amended commitments (the “Commitments”). It is understood that all previous commitments entered into by Italy in relation to Banca Monte dei Paschi di Siena (the “Bank”) are replaced in their entirety by these commitments as of the date of the Commission decision to which these commitments are annexed. The Commitments shall take effect upon the date of adoption by the European Commission (“Commission”) of the decision approving the Commitments and the extension of the restructuring period.

The restructuring period shall end on […]. The Commitments apply throughout the restructuring period unless stated otherwise.

This text shall be interpreted in the light of the Decision in the general framework of Union law, and by reference to Council Regulation (EU) 2015/1589.

Italy shall ensure that the MPS Group or its legal successor shall take the measures necessary to correctly and fully comply with the Commitments.

For the purpose of the Commitments, the Definitions set out in the commitments annexed to Commission decision C(2017)4690 shall apply.

Commitments

1) Acquisition ban: the Bank shall not acquire any stake in any undertaking, be it an asset or share transfer. The ban on acquisitions covers both undertakings which have the legal form of a company and any package of assets which forms a business.

Exemption requiring Commission’s prior approval: notwithstanding that prohibition, the Bank may, after obtaining the Commission’s approval, acquire businesses and undertakings, if it is in exceptional circumstances necessary to restore financial stability or to ensure effective competition.

Exemption not requiring Commission’s prior approval: the Bank may acquire stakes in undertakings provided that the purchase price paid by the Bank for any acquisition is less than EUR [0-50] million and the cumulative purchase prices paid by the Bank for all such acquisitions since the date of the adoption of Commission decision C(2017) 4690 is less than EUR [0-100] million.

Activities not falling under the acquisition ban: The acquisition ban shall not cover: 1) acquisitions that take place in the ordinary course of the banking business in the management of existing claims towards ailing firms, including the conversion of existing debt to equity instruments, 2) acquisitions or establishment of special purpose vehicles or undertakings provided for by the 2017 Restructuring Plan.

2) Dividend ban: the Bank shall not pay dividends, unless (i) both the CET1 and the Total Capital ratios exceed the relevant SREP guidance periodically provided by the ECB by at
least [50-100] basis points and (ii) provided that no dividend ban has been decided by the ECB or the SRB.

3) **Advertising ban**: the Bank shall not use the granting of State Aid measures or the State’s shareholding in the Bank or any advantages arising therefrom for advertising purposes to promote its products or its standing in the market.

4) **Sustainable commercial policy and ban on aggressive pricing strategies**: the Bank shall not implement any aggressive commercial strategy which would not take place in absence of State support. The Bank’s commercial policy shall be prudent, sound and oriented towards sustainability.

5) **Remuneration of the Bank’s Employees and Managers**: the Bank shall apply strict executive remuneration policies. The total remuneration of any individual may not exceed 10 times the average salary of the employees of the Bank in 2022. By way of derogation, the Bank may adopt a remuneration plan for senior managers and key function holders which may provide for the payment of a variable remuneration that exceeds the cap set out in the first paragraph, provided that: (i) the payment of the variable remuneration is conditional upon the disposal of the State participation according to Commitment no. 12; (ii) the remuneration plan complies with the European Banking Authority’s Guidelines on sound remuneration policies under Directive 2013/36/EU. In any case the maximum number of senior managers and key function holders for which the variable remuneration may exceed the above-mentioned cap is [...].

6) **Number of branches**: the number of branches in Italy shall not exceed: no. [1 350-1 370] branches by the end of 2022; no. [1 300-1 350] branches by the end of 2023; no. 1,258 branches by the end of 2024.

7) **Number of employees**: the number of employees in the Bank (banking and non-banking activities) shall not exceed: no. [20 000-21 100] employees by the end of 2022; no. [18 000-20 000] employees by the end of 2023; no. 17,634 employees by the end of 2024.

8) **Cost-income ratio**: The cost-income ratio of the Bank shall not exceed the higher of:
   i. the average cost-to-income ratio reported by the European Banking Authority for the Italian significant credit institutions included in the sample of the Risk Dashboard; and
   ii. the following targets: [70-80]% by the end of 2022; [60-70]% by the end of 2023; 60% by the end of 2024, with the following tolerance margins: [200-250] basis points in 2022, [150-200] basis points in 2023 and [100-150] basis points in 2024.

9) **Total operating costs** (Personnel Expenses, Administrative Costs, Amortization and Depreciation): Total Operating Costs shall not exceed: EUR [2 000-2 500] million by the end of 2022; EUR [1 500-2 000] million by the end of 2023; EUR 1,872 million by the end of 2024. The Bank shall respect the annual targets with a tolerance margin of [0-5]%.
10) **Balance sheet target**: the Bank shall maintain its balance sheet below EUR [140-150] billion.

11) **Loan to deposit ratio**: the net loan to deposit ratio (calculated on the basis of balance sheet item 40b.1 of assets and items 10.b, 10.c and 30 of liabilities) shall not exceed 87% by the end of 2024. The Bank shall respect the target with a tolerance margin of [200-250] bps.

12) **Disposal of the State participation**: the Republic of Italy, at the latest by […], shall dispose of its shareholding in the Bank […]. In any case, the State shall dispose of the number of shares which it acquired in the context of the 2017 precautionary recapitalisation. The Republic of Italy is going to employ on a continuous basis any reasonable effort to dispose of its shareholding before that deadline and commits to report annually to the Commission on the efforts and initiatives deployed to achieve such goal as early as reasonably possible.

[…] The State will provide the monitoring trustee with all the information requested for the purpose of performing its assessment.

Unless otherwise indicated, as a rule, all commitments must be fulfilled by and apply until […]. By way of derogation, it is to be understood that:

(i) in case of disposal of the State participation by means of a merger, only commitments no. 6, 15 and 22 will continue to apply until […].

(ii) in all other cases of disposal of the State participation, only commitments no. 2, 3, 4, 6, 7, 8, 13, 14, 15, 16, 17, 18, 20, 21 and 22 will continue to apply until […].

13) **Pricing deposits**: the Bank shall continue to price deposits contracted or renewed after the date of the adoption of Commission decision C(2017)4690 (sight deposit, time deposit, and certificates of deposit) as to keep its deposits rate in line with that of the Italian banking system (as reported by the Bank of Italy), with a tolerance margin of [0-10] basis points. The Bank shall continue not to price credit or other loan business granted after the date of the adoption of Commission decision C(2017)4690 below the market average of products with the same characteristic.

14) **MP Banque**: the Bank shall continue the winding down process of Monte Paschi Banque, according to the schedule in the table below, and shall complete it by […]. The wind-down is considered completed if the wind-down by […] is in excess of [75-85]% of MP Banque’s balance sheet size as of 31 December 2017 (which was € 1231 million).
During the winding down process, the subsidiary shall not: (i) carry out activities other than those that are consistent with managing the work-out of the loan book and all other assets with a view to an orderly wind-down; (ii) develop any new activities and enter new markets, with the exception of accepting new deposits from existing clients. In addition, the subsidiary shall conserve and use its banking licence only as long as necessary for the work-out of the loan portfolio and shall not use it to develop new activities.

15) **Leasing portfolio:** the Bank shall carry on a deleveraging of its leasing portfolio, also by means of sale of assets, which shall result in a decrease of EUR [0-5] billion (from the starting point as of 31 December 2021 equal to €3,341 billion).

16) **Non-performing loans:** By each end-year of the restructuring period, the Bank shall not exceed the higher of:
   (i) a 4% gross NPL ratio, with a tolerance margin of [25-75] basis points; and
   (ii) the average gross NPL ratio for the Italian significant credit institutions included in the sample of the Risk Dashboard reported by the European Banking Authority

17) **Disposal of real estate:** the Bank shall sell real estate properties for an amount of EUR 100 million by […]


19) **Closure of foreign branch:** the Bank shall close its branch in Shanghai by the end of 2024. The Bank shall take all the necessary steps to obtain the necessary regulatory approvals by the above-mentioned deadline.

20) **Separate management of Italy’s stake in State owned banks:** Italy shall ensure that each State-owned bank shall remain a separate economic unit with independent powers of
decision within the meaning of the EC Merger Regulation and the Jurisdictional Notice. In particular, Italy commits that: a) any confidential, commercially sensitive or personal information provided to government bodies and marked as such will be treated accordingly and not circulated to other banks and undertakings in which Italy has a stake; b) Italy will manage and maintain its stake in the Bank separately from the management of its interests in any other bank in which it has a stake; c) the exercise of any rights held by Italy and the management of Italy’s interests in any bank shall be on a commercial basis and shall not prevent, restrict, distort or significantly lessen nor impede effective competition. Any disposal of Italy’s shareholding must be conducted in a transparent, open and competitive process.

21) **Maintenance of certain 2017 commitments**: the Bank shall not reverse any actions which it has undertaken and will continue to respect internal policies and behaviours which it has adopted in order to comply with commitments no 12 (a)-(j), no 13 and no 22 of Commission decision C(2017)4690.

22) **Monitoring trustee**: full and proper implementation of all Commitments will be continuously and thoroughly monitored in detail by an independent (of the Republic and the Bank) Monitoring Trustee, that shall neither have nor become exposed to a conflict of interest and shall possess the necessary qualifications to carry out its mandate, for example as an investment bank or consultant or auditor, and shall not be subject to a conflict of interests throughout the exercise of his mandate. The Trustee shall be remunerated by the Bank in a way that does not impede the independent and effective fulfilment of its mandate and will be appointed by the Bank following endorsement of the trustee by the Commission (in line with a separate Agreement). The mandate will be updated with the disposal of the State participation to limit the scope of the monitoring, considering what is provided by the third paragraph of Commitment no. 12; it will in any case end by […].