

## **PRESS RELEASE**

### **BMPS: EUROPEAN COMMISSION APPROVES THE 2017-2021 RESTRUCTURING PLAN**

- **European Commission approves Banca Monte dei Paschi di Siena's 2017-2021 Restructuring Plan, in the context of the Bank's Precautionary Recapitalisation process**
- **Disposal of €28.6bn gross bad loans (data as of 31 December 2016), of which €26.1bn by means of a securitisation transaction and €2.5bn, including unsecured small tickets and leasing, to be disposed of through a separate procedure**
- **Sale of the securitisation Junior and Mezzanine notes at a price equal to 21% of GBV to Atlante II and deconsolidation of the bad loan portfolio expected by 1H 2018**
- **Strengthening of capital position and liquidity with 2021 target: CET1 at 14.7%, loan/deposit ratio <90% and Liquidity Coverage Ratio >150%**
- **2021 net income above €1.2bn, with a ROE equal to 10.7%**
- **The Restructuring Plan incorporates the requests included in the 2017 SREP decision, the results of the ECB inspection, recently carried out, and the Commitments to DG Comp**

*Milano, 5 July 2017* – On 4 July 2017, the European Commission announced the approval of the 2017-2021 Restructuring Plan (the "Restructuring Plan") of Banca Monte dei Paschi di Siena ("BMPS" or the "Bank"), in order to allow the precautionary recapitalisation according to Italian Law Decree No. 237/2016, as subsequently converted and amended (the "Precautionary Recapitalisation" and "Decree 237") of the Bank according to European Union ("EU") regulations. After the formal approval of the European Commission, as per Decree 237, the government decrees related to the burden sharing and to the Minister of Economy and Finance (inister of the European Commission, as per Decree

#### **1. The Restructuring Plan**

The Restructuring Plan has the aim to reach an adequate profitability level for the Bank, with a target ROE >10% in 2021, and is based on the following four pillars:

1. refocusing on Retail and Small Business customers through a new simplified and highly digitised business model;
2. a renewed operating model, with a sustained focus on efficiency, which will lead to a target cost/income ratio below 51% in 2021 and a reallocation of employees involved in administrative activities towards sales activities;
3. radically improved credit risk management, with a completely new organisational structure of the Chief Lending Officer (“CLO”) which will enable the reinforcement of the Bank’s early detection processes and an improved cure rate, resulting in a cost of risk below 60 bps and a Gross NPE Ratio below 13% in 2021;
4. strengthened capital and liquidity position, with 2021 targets including a CET1>14%, a Loan to Deposit Ratio <90% and a Liquidity Coverage Ratio (“LCR”) >150%, together with a significant decrease in the cost of funding.

The Restructuring Plan includes the disposal of the vast majority of the bad loan portfolio as of 31 December 2016, for a total amount of €28.6bn GBV.

The Restructuring Plan is based on a significantly different framework from the one underlying the industrial plan presented on 25 October 2016, being affected, on one hand, by the effects of the unsuccessful market recapitalisation at the end of 2016 and, on the other, by the constraints and recommendations received from Directorate General for Competition (“DG Comp”) in the context of the negotiation of the Restructuring Plan, as provided for the Precautionary Recapitalisation process.

In particular, the Restructuring Plan is compliant with and reflect the commitments made to DG Comp (the “Commitments”) and it is consistent with the 2017 SREP decision. In this document, received on 19 June 2017, the ECB requires the Bank to maintain, from 2018, on a consolidated basis, a Total SREP Capital Requirement of 11%, which includes a minimum own funds requirements of 8% (Pillar 1 Requirements) and own funds requirement of 3% (Pillar 2 Requirements, P2R) to be made entirely of Common Equity Tier 1 Capital.

Hence, BMPS is required to meet the following capital requirements on a consolidated basis as of 1 January 2018:

- 9.44% transitional CET1 Ratio
- 12.94% transitional Total Capital Ratio

including, in addition to the P2R, 1.875% Capital Conservation Buffer and 0.0625% O-SII Buffer (Other Systemically Important Institutions Buffer). The Capital Conservation Buffer and O-SII Buffer will reach respectively 2.5% on a fully loaded basis in 2019 and 0.25% in 2021 (this last one on a transitional basis: 0.125% in 2019 and 0.1875% in 2020). The Restructuring Plan fully reflects the result of the ECB’s credit inspection, concluded in May 2017. The inspection, carried on the loans portfolio using as reference date 31 December 2015, identified additional provisioning to be implemented with respect to the coverage levels at that date. The additional provisioning is in substantial overlap with the loan loss provisions accounted for starting from 31 December 2015 up to date, the transactions to dispose the bad loans portfolio and the higher provisioning on non-performing loans envisaged in the Restructuring Plan to streamline the non performing loans exposure reduction in the 2017-2021 timeframe. The residual impact, equal to ca. €0.26bn, has been taken into account in the first years of the Plan, given the conservative estimation of the cost

of credit.

The Restructuring Plan includes the preliminary estimate of the effects of the IFRS 9 accounting standard, for around €1.2bn as First Time Adoption (“FTA”), determined on the basis of the implementation of the project, activated by the Bank, to adopt the new accounting standard.

### **1.1 Refocusing on Retail Banking activities**

The relaunch of the Bank’s commercial business will focus on Retail and Small Business customers, through a new simplified and highly digitised business model, with specific service lines (such as purchasing a home, covering from risks or managing a business), partly by leveraging on Widiba’s distinctive features to attract new customers and to enhance the management of existing ones. A new way of serving Small Business customers will be implemented, with a radical effort towards product simplification and a continuous focus on new lending and on connected risks. Greater attention will be reserved to Affluent and Private customers, leveraging on insurance and wealth management products and on advisory services, with the aim of a significant increase in Assets under Management (boosted by leveraging on the current Life and P&C bancassurance partnership with AXA and on the long-term relationship with Anima Group in the mutual funds segment).

Greater reliance will be placed on Widiba as a core digitalisation and innovation vehicle – through which technological solutions and automation of various processes will be extended throughout the Group – and as a key asset to lower cost-to-serve for the Group.

Corporate activities will be rationalised, with the revision of the business model and optimisation of capital absorption.

### **1.2 Renewed operating model with a sustained focus on efficiency**

The new operating model will focus on greater efficiency, continuing on the path already followed by the Bank since 2012, through:

- the extensive automation of the Group, which, by means of additional technological investments in the infrastructure and building on Widiba’s best practices, will reduce the time spent on manual processing by employees Full Time Equivalent (“FTE”), from 34% in 2016 to <20% in 2021;
- the complete redesign of the network, by reducing branches (from approximately 2,000 in 2016 to approximately 1,400 in 2021) and of the coordination centres (“Aree Territoriali” and “Direzioni Territoriali Mercato”) with the increase of the percentage of those who are dedicated to sales activities from 62% in 2016 to c. 70% in 2021;
- a headcount reduction that, without impact on service quality standards, will see employees decrease by about 5,500 units by 2021 (of which 4,800 involved in the Fondo di Solidarietà, 450 from the disposal/closure of businesses, 750 from natural turnover and around 500 new hirings); the one-off costs related to headcount reduction are estimated equal to €1.15bn over the Restructuring Plan horizon;

- further optimisation of other administrative expenses, that will decrease of 26% (from c. €0.8bn in 2016 to less than €0.6bn in 2021), keeping a best-in-class position in terms of cost management.

### **1.3 On-going Credit Risk Management improvement**

In line with the actions implemented in recent years to improve credit quality and the process of credit risk management, the Restructuring Plan provides for:

- the complete re-organisation of CLO, with centralised credit underwriting decision-making mechanisms and direct reporting of territorial credit areas; a strong push on automated underwriting processes for small ticket loans to Retail and Small Business customers; the percentage of automatic credit decisions will increase to 70% in 2021 for the Retail segment and to 50% for the Small Business segment;
- the strengthening of early detection and a dedicated monitoring system for exposures at risk, which will bring about a decrease in default rates and an increase in the past-due cure rate;
- the creation of a separate business unit for NPE management within the CLO division, which will be in charge of early remedial actions/ongoing restructurings, control the assets and performance of the credit recovery platform, as well as in charge of the recovery activities related to the potential new flow of bad loans not managed by the platform;
- a specific program for the sale/reduction of unlikely-to-pay and bad loans, whose economic effects are included in the Restructuring Plan, in order to achieve the target gross NPE on total loans (“NPE ratio”).

### **1.4 Strengthened liquidity and capital position**

The Restructuring Plan envisages a capital increase of €8.1bn, of which €3.9bn from the capital increase underwritten by the MEF and €4.3bn from burden-sharing.

The capital increase and bad loans deconsolidation will have positive impacts on main key liquidity indicators, with Liquidity Coverage Ratio and Net Stable Funding Ratio well above the 100% target level over the Restructuring Plan horizon.

From a commercial standpoint, the Loan-to-Deposit Ratio is expected to improve by about 16 percentage points (from 103% in 2016 to 87% in 2021), thanks to the increase in direct funding coming from the network and the expected decrease in gross commercial loans. Thanks to the capital increase and the bad loans disposal, a cost of funding reduction is expected in the Restructuring Plan horizon, with a re-alignment to market levels.

The Group is expected to achieve a CET1 ratio >14% and a ROE >10% in 2021.

With reference to the initiatives that have contributed to the strengthening capital process and that are complied with the Commitments with DG Comp, it should be noted that on 30 June 2017 the Bank sold to CartaSi S.p.A. (“CartaSi”), subsidiary of Istituto Centrale delle Banche Popolari Italiane S.p.A (“ICBPI”), a leading player in the management of national and international payment services, its merchant acquiring business (the “Merchant

Acquiring”) for a total consideration of €536mIn. The deal, announced on 3 February 2017, provides for the Bank and Cartasì to enter into a ten-year partnership, for the development and placement, through BMPS Group distribution network, of products and payment services for current and future BMPS Group customers.

Furthermore, on 3 July 2017 the Bank sold to ICBPI its 11.74% stake in Bassilichi S.p.A. and its 10.13% stake in Consorzio Triveneto S.p.A.

The main economic data and some KPIs of the Restructuring Plan are summarised in the following table:

(EUR bn, %)	2016 A	2019 E	2021 E	Cagr 16-21
Total revenues	4.3	3.8	4.3	-0.1%
Operating Costs	-2.6	-2.3	-2.2	-3.8%
<b>Gross Operating Result</b>	<b>1.7</b>	<b>1.4</b>	<b>2.1</b>	<b>4.9%</b>
LLP (loans, financial assets and other operations)	-4.5	-0.7	-0.5	<i>n.m.</i>
<b>Net Operating Result</b>	<b>-2.8</b>	<b>0.7</b>	<b>1.6</b>	<b><i>n.m</i></b>
Pre- tax Income	-3.2	0.4	1.4	<i>n.m</i>
<b>Net Income</b>	<b>-3.2</b>	<b>0.6</b>	<b>1.2</b>	<b><i>n.m</i></b>

(%)	2016 A	2019 E	2021 E	var. 16-21
Number of Employees	25,566	22,115	20,065	-5,501
Cost / Income ratio	61.2	62.0	50.6	-10.6
R.O.E. <sup>1</sup>	<i>n.m.</i>	5.7	10.7	<i>n.m.</i>
NPE ratio	34.5	14.3	12.9	-21.6
Loan to Deposit ratio	102.9	90.7	87.0	-15.9
CET1 ratio <sup>2</sup>	8.2	12.7	14.7	6.5
Total Capital Ratio	10.4	14.9	17.0	6.6

<sup>1</sup> R.O.E. calculated on average equity

<sup>2</sup> 2016 transitional; fully loaded in 2019 and 2021

## 1.5 Commitments related to the Restructuring Plan

The Restructuring Plan is consistent with the Commitments made to DG Comp, required by European legislation, related to several aspects of the Plan, among which:

- cost reduction: annual constraints in terms of number of branches, employees, cost/income and total operating costs, additional cuts up to a maximum of €100m in

- case the operating result targets (gross of LLPs) are not met;
- disposals of non-strategic assets: disposal of the foreign banks, disposal of a list of company stakes over the plan's horizon, provided that the disposal price results in a capital neutral impact and disposal of part of real estate property;
  - contingency risk: commitment to deconsolidate a portfolio of €26.1bn of bad loans, strengthening of risk control, limitations on trading activity in terms of VAR and of the nature of the traded instruments;
  - acquisition ban;
  - a remuneration cap of 10 times the average salary of BMPS employees will be established.

A Monitoring Trustee, appointed by the Bank with the approbation of DG Comp, will verify the compliance with such Commitments.

## **2. Bad loan disposal transaction**

The transaction on the bad loan portfolio envisages the disposal of a portfolio of bad loans with a total GBV of about € 26.1bn as at 31 December 2016 through a securitisation and the intervention of Atlante II (managed by Quaestio Capital Management SGR S.p.A.), with whom, on 26 June 2017, the Bank signed a binding agreement for the acquisition of 95% of the Junior and Mezzanine notes.

The Securitisation perimeter involves MPS Group loans that were classified as bad loans as at 31 December 2016 (€28.6bn excluding €0.8bn non-disposable loans), net of €2.5bn portfolio of small unsecured tickets with GBV less than €150k and leasing.

Disposal price is about €5.5bn, equal to 21.0% of GBV at the 31 December 2016 (cut-off date), vs. a NBV of c. €9.4bn as at 31 December 2016; the difference between the disposal price and the NBV, about €3.9bn, will be booked in the first half of 2017, while the de-recognition of the bad loan securitised portfolio is expected by June 2018.

The portfolio will be transferred to a Sec. Co. and will be financed through the issue of the following notes:

- (i) A1 Senior for €3,256mln (12.5% of GBV);
- (ii) A2 Senior for €500mln (1.9% of GBV);
- (iii) Mezzanine for €1,029mln (4% of GBV);
- (iv) Junior for €686mln (2.6% of GBV).

During the interim period between the transfer of the Securitised Portfolio and the de-recognition of it, Senior A1, Senior A2 and Junior notes will be retained by BMPS.

Regarding A1 Senior notes, a State guarantee scheme ("GACS") is expected to be granted by June 2018, after obtaining an investment grade rating from at least two rating agencies; subsequently, the notes will be placed on the institutional market.

The Securitization involves the following phases:



- (i) by December 2017 the transfer of the portfolio to the Sec. Co., the issue by the Sec. Co. of all the notes, that will be initially subscribed by the originator, and the sale of 95% of the Mezzanine notes to Atlante II;
- (ii) by June 2018 with the assignment of an investment grade rating to the Senior A1 notes and the granting of the GACS, the placement on the market of these notes together with Senior A2 notes and the disposal to Atlante II of 95% of the Junior notes and the concurrent portfolio deconsolidation.

There is an earn out equal to 50% of the extra performance in favour of BMPS if the IRR on Junior notes is above 12% annual threshold.

For the entire duration of the Securitisation, BMPS will retain 5% of the nominal value of each tranche, in order to be compliant with the current law related to retention rule.

The Bank granted exclusivity to Quaestio Capital Management SGR S.p.A., until mid-September for the acquisition of BMPS servicing platform.

RWA evolution in the Restructuring Plan is based on the hypothesis that the waiver on the LGD models will be confirmed.

### **3. The precautionary recapitalisation**

Following the request sent by the Bank to the ECB on December 23<sup>rd</sup>, 2016, through MEF, for access to the Precautionary Recapitalisation measure, the ECB established that the capital shortfall resulting from the 2016 EBA Stress Test amounted to €8.8bn.

Considering that EU regulations on State aid forbid using public financial aid to compensate losses realised (from the date of the Stress Test onwards), or that are likely to be realised in the near future, the maximum budget for State aid compatible with regulations was calculated in €5.4bn.

This amount will have to include an amount equal to the compensation for the eligible holders of subordinated UT2 bonds, 2008-2018 issue, with a nominal value of approx. €2.1bn, with ISIN code IT0004352586 ("UT2 2008-2018"), as prescribed by Decree 237, preliminarily estimated at €1.5bn.

Therefore, taking in to account the maximum budget for State aid, the capital increase reserved to MEF amounts to €3.9bn. This amount, plus the burden-sharing of €4.3bn, will result in the Bank's total capital strengthening by €8.1bn.

An integral part of the Precautionary Recapitalisation process is the application of the so-called "burden sharing" principle, which defines the forced conversion of all subordinated bonds issued by the Bank to both institutional and retail investors before the subscription of shares by MEF. Forced conversion will, as mentioned, cover all subordinated securities issued, for a total value of € 4.3bn.

The Decree 237 defines the conversion ratios of subordinated loans: Additional Tier 1 debt instruments will be converted at 75% of their nominal value, FRESH 2003 subordinated bonds at 18% of their nominal value and Tier 2 instruments at 100% of their nominal value.

The Decree 237 also defines the compensation criteria for retail bondholders who have acquired subordinated UT2 2008-2018 bonds; further criteria might be set by the

Implementing Decree, provided for by Decree 237, which is expected to be issued by the MEF in July 2017.

BMPS has been advised by Lazard S.r.l. and Mediobanca – Banca di Credito Finanziario S.p.A. acting as financial advisors with respect to the Precautionary Recapitalisation and the deconsolidation of the bad loan portfolio equal to €26.1bn in the context of the Precautionary Recapitalisation and by KPMG Corporate Finance as industrial advisor for the bad loans transaction. Studio Bonelli, Prof. Piergaetano Marchetti, Prof. Francesco Carbonetti, Prof. Luigi Arturo Bianchi and Linklaters have assisted the Bank as legal advisors.

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