EUROPEAN COMMISSION

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Subject: **State Aid SA.55121 (2019/N) – Italy – Banca Monte dei Paschi di Siena – Amendments to the list of commitments of the Republic of Italy to the European Commission**

Sir,

1. PROCEDURE

(1) By decision of 4 July 2017 ("the Restructuring Decision")[1], the Commission approved recapitalisation aid and liquidity aid to Banca Monte dei Paschi di Siena ("MPS" or "the Bank") of respectively EUR 5.4 billion and EUR 15 billion, based on a Restructuring Plan and Restructuring Commitments ("the Commitments").

(2) On 6 August 2019, following pre-notification contacts, the Italian authorities formally requested the Commission to amend the Restructuring Decision and they proposed amendments to Commitments 9 and 24 ("the Amended Commitments")[2]. Concretely, to cater for a deadline extension for the issuance of Tier 2 subordinated debt instruments, the Italian authorities proposed additional measures with an equivalent impact on the Bank's viability.

1 State Aid SA.47677 (2017/N) – New aid and amended restructuring plan of Banca Monte dei Paschi di Siena, OJ C 40, 2.2.2018, p. 1.

2 See Annex

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(3) By letter dated 2 August 2019, Italy agreed to waive its rights deriving from Article 342 TFEU in conjunction with Article 3 of Regulation 1/1958[3] and to have the present amendment decision adopted and notified in English.

2. FACTS

2.1. Description of the beneficiary

(4) MPS is an Italian bank with a total balance sheet of EUR 131.5 billion, risk-weighted assets ("RWA") of EUR 58.5 billion, 22,223 employees and 1,529 branches in Italy[4]. In 2018, the Bank generated EUR 278.6 million net profit, which translated into a return on equity of 2.9%[5]. In the first quarter of 2019 the Bank generated a net profit of EUR 27.9 million[6] and in the second quarter of 2019 a net profit of EUR 65 million[7].

(5) In terms of capital, the Bank's Total Capital Ratio as at 31 December 2018 stood at 15.2%, which was above the minimum requirements of 12.94% for 2018 and 13.5% for 2019, as established for the Bank by the European Central Bank in the supervisory review and evaluation process ("SREP"). As regards the Common Equity Tier 1 ratio, as at 31 December 2018 it amounted to 13.7% (above the SREP requirement of 9.44% for 2018 and 10% for 2019)[8]. As of 31 March 2019, the Bank's Total Capital Ratio stood at 14.7%, while its Common Equity Tier 1 ratio was 13.3%[9]. As of 30 June 2019, the Bank's Total Capital Ratio was 15.5%, while its Common Equity Tier 1 ratio was 14.0%[10].

(6) In terms of its shareholders' structure, following the State recapitalisation approved in the Restructuring Decision, the Italian State holds 68.247% of the Bank's shares[11].

(7) A detailed description of MPS' business acitivites can be found in recitals (8) to (22) of the Restructuring Decision.

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[3] Council Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.

[4] Figures as of 30 June 2018 based on the Bank's press release of 1 August 2019 available at https://www.gruppomps.it/static/upload/pr_/pr_gmps_2q19_results.pdf

[5] Figures as of 31 December 2018 based on the Bank's consolidated financial report available at https://www.gruppomps.it/static/upload/ann/annual-report_gmps_20181.pdf

[6] Figures as of 31 March 2018 based on the Bank's consolidated financial report available at https://www.gruppomps.it/static/upload/_con/consolidate-interim-report-as-at-31-march-2019.pdf

[7] See footnote 4.

[8] See footnote 5.

[9] See footnote 6.

[10] See footnote 4. The Total Capital Ratio including the issuance of EUR 300 million in Tier 2 bonds in July 2019 was 16.0%.

[11] According to the report referred to in footnote 5 (p. 16).

2.2. Relevant commitments

(8) The Restructuring Decision authorised recapitalisation and liquidity aid on the basis of the Commitments offered by Italy, including viability-related commitments concerning the Bank's capital position and its cost-cutting targets.

(9) Under commitment 24.a) the Bank was to issue:

- by 31 March 2018, a Tier 2 instrument with a total nominal value equal to at least EUR 700 million, and

- by 31 December 2018, a Tier 2 instrument with a total nominal value equal to at least EUR 750 million.

In other words, the Bank was to issue a total amount of at least EUR 1.45 billion of Tier 2 instruments during 2018.

(10) Italy partially respected the abovementioned commitment. On 11 January 2018 the Bank successfully issued a 10-year Tier 2 subordinated bond[12] with a total nominal value equal to EUR 750 million[13] (i.e. with a nominal value of EUR 50 million above the amount required under the first part of Commitment 24.a)). The remaining nominal amount of tier 2 instruments to be issued under Commitment 24.a) was therefore EUR 700 million, to be raised by the end of 2018.

(11) This remaining Tier 2 instrument with a total nominal value equal to at least EUR 700 million was not issued by 31 December 2018.

(12) However, on 16 July 2019, the Bank issued a 10-year Tier 2 subordinated bond with a total nominal value equal to EUR 300 million and with a 10.5% coupon[14] (i.e. still falling short, by EUR 400 million, of the full amount required under Commitment 24.a)).

(13) Under Commitment 9.a) the Bank was to reduce the number of branches in Italy to 1,432 by 31 December 2019 (and maintain this maximum ceiling in 2020 and 2021), while under Commitment 9.b) the Bank was to reduce the number of employees to 20,065 by 31 December 2021[15].

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12 The instrument is callable after 5 years at the option of the issuer subject to approval by the regulator.

13 See the Bank's press release of 11 January 2018, available at: https://www.gruppomps.it/en/media-and-news/press-releases/tier2-bond-jan18.html.

14 See the Bank's press release of 16 July 2019, available at: https://www.gruppomps.it/en/investor-relations/press-releases/banca-mps-concluso-con-successo-il-collocamento-di-un-obbligazione-subordinata-tier-2.html

15 However, in the event the Bank would not manage to divest its foreign subsidiaries (Monte Paschi France, Banca Monte Paschi Belgio) by 30 June 2018, the maximum number of employees to be respected by end-2021 would be raised to 20,165 (Annex to Commitment 9, point b)). Monte Paschi France was not divested by 30 June 2018 and has been in run-off since then, while Banca Monte Paschi Belgio was successfully divested.

3. POSITION OF ITALY

(14) Italy submits that the Bank has not been able to issue the entire amount of Tier 2 instruments in 2018 due to adverse market situation. Namely, starting from May 2018, unfavourable financial market conditions nourished negative investors' sentiment toward bonds issued by Italian issuers in general (and by the Bank in particular). The Bank was constantly monitoring the market to identify a time window for the issuance of the second tranche of the Tier 2 bond. In addition, in the last months of 2018, as an alternative to a public issuance, the Bank also mandated two investment banks to survey some major investors about a private issuance (in the form of club deals or private placements), eventually for a smaller amount, so as to minimise the scope of the potential breach. Nevertheless, market volatility and continuous sliding of the pricing for existing Tier 2 instruments of the Bank ultimately hindered the issuance of further Tier 2 instruments in 2018.[16]

(15) In the first weeks of 2019, the market conditions further deteriorated for the Bank. The yield for the existing Tier 2 bond proved to be very volatile and at stressed levels, both in absolute value and compared to other Italian banks[17].

(16) The yield continued to increase, reaching the exceptional level of 32% at call date and 18% at maturity date in the first weeks of January, which corresponds to a market price for the bond well below par (touching a minimum of 42% of the nominal value). A partial recovery took place between February and April 2019 as the price recovered to about 65 (which corresponds to a yield of 19% at call date and to 12% at maturity date), but then quickly dropped again to about 55% of the nominal value (which corresponds to a yield of 26% at call date and to about 15% at maturity date). Yields remain therefore very volatile and at stressed levels, both in absolute value and compared to other Italian banks.

(17) Notwithstanding the above, the Bank managed, on 16 July 2019, to complete a 10-year Tier 2 bond issuance for an amount of EUR 300 million with a coupon of 10.5%. Therefore, Italy submits that the outstanding amount of Tier 2 instruments to be issued to reach the level set out in Commitment 24 is now EUR 400 million (out of the initial EUR 1.45 billion).

(18) Italy underlines that a further issuance of Tier 2 debt remains a goal for the Bank, and that, if possible, it would be achieved still in 2019. However, Italy admits that the market conditions might remain difficult and that the issuance might need to be postponed to 2020. Therefore Italy proposes to amend the second part of Commitment 24.a) by extending the deadline for the issuance of the Tier 2 bond to the end of 2020.

(19) To compensate for the partial delay in the compliance with Commitment 24, Italy has notified certain amendments to the Commitments that would enhance the

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[16] As a reference, the secondary market prices for the Tier 2 instruments issued by the Bank in January 2018 (with an issue price of 100% and a fixed-rate coupon of 5.375%) dropped significantly from May 2018 onwards, leading to an increase in the yield which reached figures around 10% (at first call date) and 8% (at maturity date) in June 2018, and hit 22% (at call date) and 13.5% (at maturity date) in December 2018 (source: Bloomberg).

[17] In the first weeks of January 2019, the yield reached 32% (at call date) and 18% (at maturity date); a partial recovery took place between February and April 2019, but then the yield rose again to 26% (at call date) and 15% (at maturity date).

Bank's viability beyond the targets currently set in the Restructuring Plan. More specifically, Amended Commitments 9.a) and 9.b) are as follows:

(a) The Bank shall further improve its viability as follows:

- the end-2021 target for the number of MPS branches in Italy would further fall by 60, and
- the end-2021 target for the number of full-time employees would be further reduced by 80 staff members.[18]

(b) The time limit for the achievement of those amended targets is 31 December 2021.

(20) Italy also underlines that the Bank has undertaken additional actions to reduce its RWA, in order to neutralise the impact of the failed Tier 2 issuance on its capital ratios. As a result, the Bank's capital ratios (both the Common Equity Tier 1 and the Total Capital Ratio) are above the requirements specified in the supervisory review and evaluation process and above the Restructuring Plan targets.

4. ASSESSMENT

(21) In the Restructuring Decision, the Commission assessed the compatibility of the notified measures with Article 107(3)(b) TFEU based on the 2013 Banking Communication[19] and the 2009 Restructuring Communication[20]. A restructuring decision can in principle be amended by the Commission where 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.[21] 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 was maintained. In order 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.

(22) The Commission observes that the requested amendments do not entail any additional State aid to MPS. The requested amendments concern merely the

[18] These same additional reductions apply to the respective end-2021 target for the number of MPS branches in Italy and the number of full-time employees under the run-off scenario (Annex to Commitment 9).

[19] Communication on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis (OJ C 216, 30.7.2013, p. 1).

[20] 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).

[21] For other similar decisions see, for instance, SA.47174 Amendment of the Restructuring of Banco CEISS through integration with Unicaja Banco - Amendment to the restructuring plan of Banco CEISS, OJ C 68, 27.1.2017, p. 1; SA.29832 (2013/N-2 and MC10/2009) Amendment to the Restructuring plan of ING, OJ C 89, 5.11.2013, p. 66; SA.43365 (2019/N-2) Amendment of the restructuring plan of National Bank of Greece approved in 2015, not published yet; and SA.47702 (2017/C) (ex 2017/N) Alternative package to replace the commitment for the Royal Bank of Scotland to divest the Rainbow business, OJ L 28, 31.1.2018, p. 49.

deadline extension for the fulfilment of one commitment, which will be compensated by other equivalent commitments. Concretely, the Member State has notified an extension of the time limit for the issuance of Tier 2 instruments and additional efficiency-improving measures subject to the Commission's assessment.

4.1. Viability of MPS

(23) In the absence of additional aid, the Commission will not assess the viability of MPS entirely anew. It will only examine whether the Amended Commitments have an equivalent positive effect on MPS' viability as the Commitments and whether the Commission – on that basis – could confirm its conclusion of the Restructuring Decision as to MPS' viability. The Commission makes the following observations:

(24) First, although MPS did not issue the required Tier 2 instrument in the full amount by the deadline of 31 December 2018, the Commission acknowledges that Italy has partially respected Commitment 24 by raising EUR 750 million in Tier 2 bonds in January 2018 (and then EUR 300 million was issed after the deadline, in July 2019). As regards the remaining amount of EUR 400 million, the commitment to issue the instrument will be upheld, including the amount envisaged in the Retructuring Decision; only the time limit for the issuance will be postponed. Indeed, under the Amended Commitments, MPS will issue the remaining EUR 400 million in Tier 2 bonds by 31 December 2020 at the latest[22], which is a two-year deadline extension as compared to the Commitments. Nevertheless, the final outcome will remain similar. As regards the amended timeline for the issuance, the Commission notes that the negative market conditions which have prevented the Bank from complying with the commitment in 2018 continue to persist, so that the Bank was able to issue only EUR 300 million of the outstanding Tier 2 instruments, several months after the initial deadline. Given the high volatility of the yields and the very recent EUR 300 milion issuance, it appears reasonable to postpone the deadline for the issuance of the remaining EUR 400 million until the end of 2020.

(25) Second, Italy committed to ensure that MPS implements additional measures that have the potential to further reduce the costs of the Bank and improve its long-term profitability and solvency, thereby contributing to its viability. Namely, the number of branches in Italy and full-time employees will be further downsized by 31 December 2021. Concretly, as described in recital (19), the ceiling for the number of branches in Italy for 2021 will drop to 1,372 and the maximum number of full-time employees for that year will be further reduced by 80 staff members[23]. The Commission notes that the reduction in the number of branches

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[22] Even though the amended Commitment 24.a) reads *"The Bank shall issue by 31/03/2018 a Tier 2 instrument with a total nominal value equal at least to EUR 0.7 billion and by 31/12/2020 a Tier 2 instrument with a total nominal value equal at least to EUR 0.75 billion"*, the Bank already partially fulfilled the second part of the commitment given its January 2018 issuance of EUR 750 million (i.e. EUR 50 million in excess of the EUR 700 million which the Bank was required to issue by 31/03/2018) and its July 2019 issuance of a Tier 2 instrument of EUR 300 million. As a result, to comply with the second part of Commitment 24.a), the Bank must still issue EUR 400 million by 31/12/2020 (i.e. – EUR 50 million – EUR 300 million).

[23] I.e. from 20,065 to 19,985 under the baseline scenario for Commitment 9.b) and from 20,165 to 20,085 in the run-off scenario, see recital (13) and footnote 15.

committed by Italy corresponds to more than 4% of the end target for the size of MPS' branch network.

(26) Third, the Commission takes into account that even following a partial non-fulfillment of the commitment to raise EUR 1.45 billion in Tier 2 instruments, the Bank has been fulfilling its regulatory capital requirements. Moreover, it realised profits in 2018 and the first two quarters of 2019.

(27) In conclusion, as regards the impact of the Amended Commitments on the Bank's viability, the Commission observes that the change should not adversely affect the prospects of the Bank's return to long-term viability.

4.2. Burden-sharing and distortions of competition

(28) In the Restructuring Decision, the Commission assessed whether the granting of the aid complies with the burden-sharing requirements. As the Amended Commitments do not provide for additional aid and do not concern burden-sharing, the Commission's assessment with regard to burden-sharing contained in the Restructuring Decision[24] still applies.

(29) As regards the measures to limit distortions of competition described in the Restructuring Decision[25], such as reductions in total assets and RWA, divestiture commitments, reduction of leasing activities and behavioural constraints, they have not changed and continue to safeguard against undue distortions of competition resulting from the aid.

(30) In fact, it should be noted that in terms of the downsizing of the Bank, its total assets are already below the 2021 target level of EUR 134 billion. In addition, the Amended Commitments actually provide for a further reduction of the Bank's size by decreasing the maximum number of its branches in Italy by an additional 4%, which might create commercial room for non-aided competitors. Therefore, in terms of measures to limit distortions of competition, the Amended Commitments do not affect the Commission's assessment as presented in the Restructuring Decision.

4.3. Conclusions on the compatibility assessment

(31) In conclusion, the Commission notes that the Amended Commitments do not alter the overall balance of the aid measures to the Bank and commitments provided by Italy. Therefore, the Commission's conclusions reached in the Restructuring Decision that:

(i) the aid does not exceed the minimum necessary to achieve the objective of remedying a serious disturbance in the Italian economy;

(ii) the distortions to competitions resulting from the aid are sufficiently addressed[26];

(iii) adequate burden-sharing was achieved; and

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[24] See recitals (101) to (110) of the Restructuring Decision.

[25] See recitals (114) to (117) of the Restructuring Decision.

[26] By the measures described in recitals (111) to (117) of the Restructuring Decision.

(iv) the Restructuring Plan is apt to restore the Bank’s long-term viability;

remain valid.

5. CONCLUSION

The Commission has accordingly decided:

> not to raise objections to the Amended Commitments notified by Italy on 6 August 2019 on the grounds that they do not alter the compatibility of the aid assessed in the Restructuring Decision with the internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union.

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

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Yours faithfully
For the Commission

Margrethe VESTAGER
Member of the Commission

CERTIFIED COPY
For the Secretary-General,

Jordi AYET PUIGARNAU
Director of the Registry
EUROPEAN COMMISSION

Annex: Amendments to the list of commitments

Subject: SA.47677 - Banca Monte dei Paschi di Siena SpA - Decision C(2017) 4690 final as of 4 July 2017 - Amendments to the list of commitments of the Republic of Italy to the European Commission (hereinafter the "List of Commitments")

Following several meetings and exchanges with DG Competition services on balancing measures referred to the partial non-compliance to point no. 24 of the List of Commitments and taking into account the resolution of BMPS Board of directors as of 29 May 2019, the following amendments to the List of Commitments are hereby submitted.

Commitment 9 – Cost reduction measures – points a) and b)

a) Number of branches in Italy: the number of branches in Italy shall not exceed the following:

	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
Number of branches	1,862	1,532	1,432	1,432	~~1,432~~ 1,372

b) Number of employees: the number of employees in the Bank (banking and non-banking activities) shall not exceed the following:

	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
Number of employees[1]	23,966	23,015	22,115	20,915	~~20,065~~ 19,985

Commitment 24 - Strengthening of the Bank's capital position – point a)

a) The Bank shall issue by 31/03/2018 a Tier 2 instrument with a total nominal value equal at least to EUR 0.7 billion and by 31/12/~~2018~~ 2020 a Tier 2 instrument with a total nominal value equal at least to EUR 0.75 billion.

Consequently, the annex to Commitment 9, that states figures to be applied if the Foreign Banks should not be divested by 30 June 2018, is amended as follows:

a) Number of branches in Italy: The number of branches in Italy shall not exceed the following:

	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
Number of branches	1,862	1,532	1,432	1,432	~~1,432~~ 1,372

[1] ***Fruendo***: The number of employees in any year does not include any employees of MPS who were outsourced by MPS in 2013 in the Fruendo transaction and who MPS is/has been required to reinstate as employees of MPS as a result of ongoing labour litigations.

b) Number of employees: The number of employees in the Bank (banking and non-banking activities) shall not exceed the following:

	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
Number of employees	23,966	23,381	22,224	21,015	~~20,165~~ 20,085

All the other commitments remain unchanged.