Bank Recapitalization Schemes in Italy

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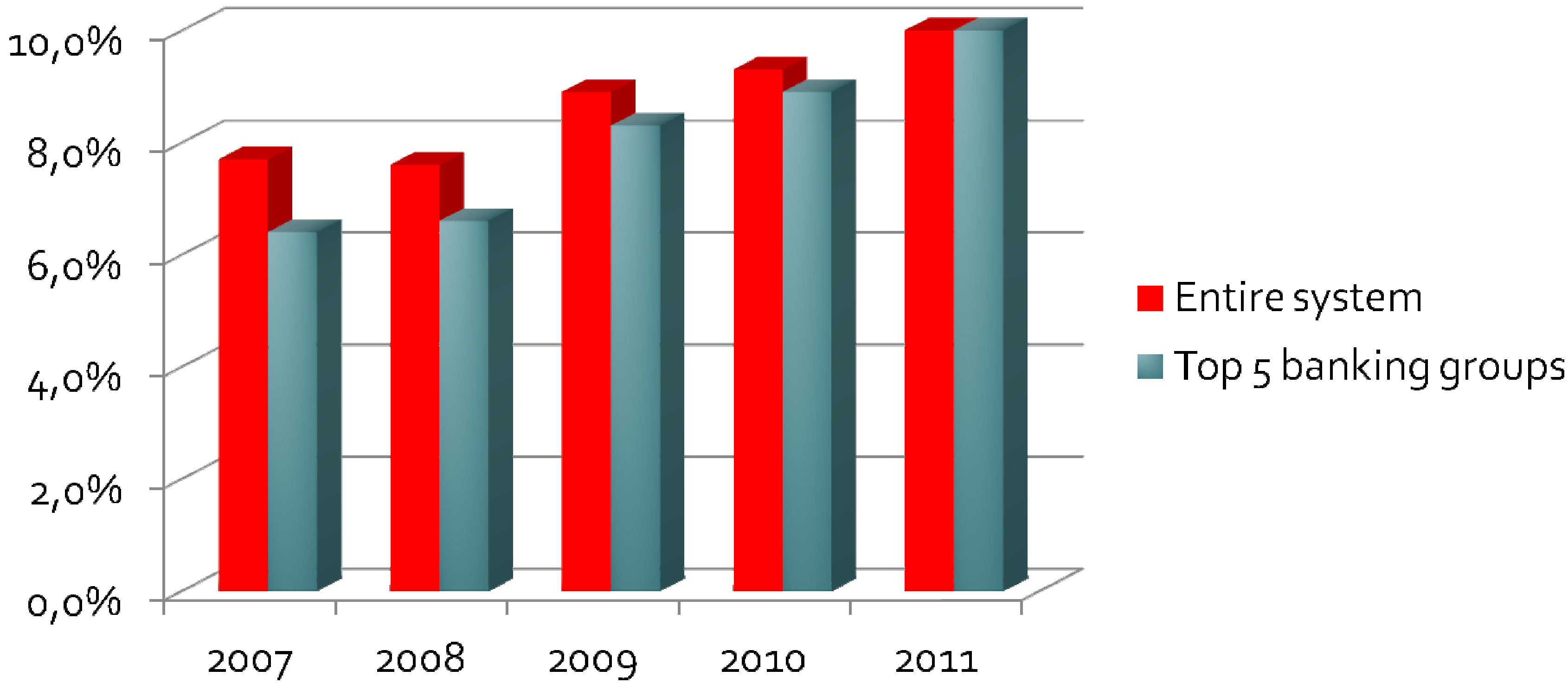
Outline of Presentation

1. Recapitalisation Needs of Italian Banks
2. The First Recapitalisation Scheme of 2008 (“Tremonti Bonds”)
3. Italian Banks vis-à-vis the EBA Recommendation of 8 December 2011
4. The “Monte dei Paschi Bonds”

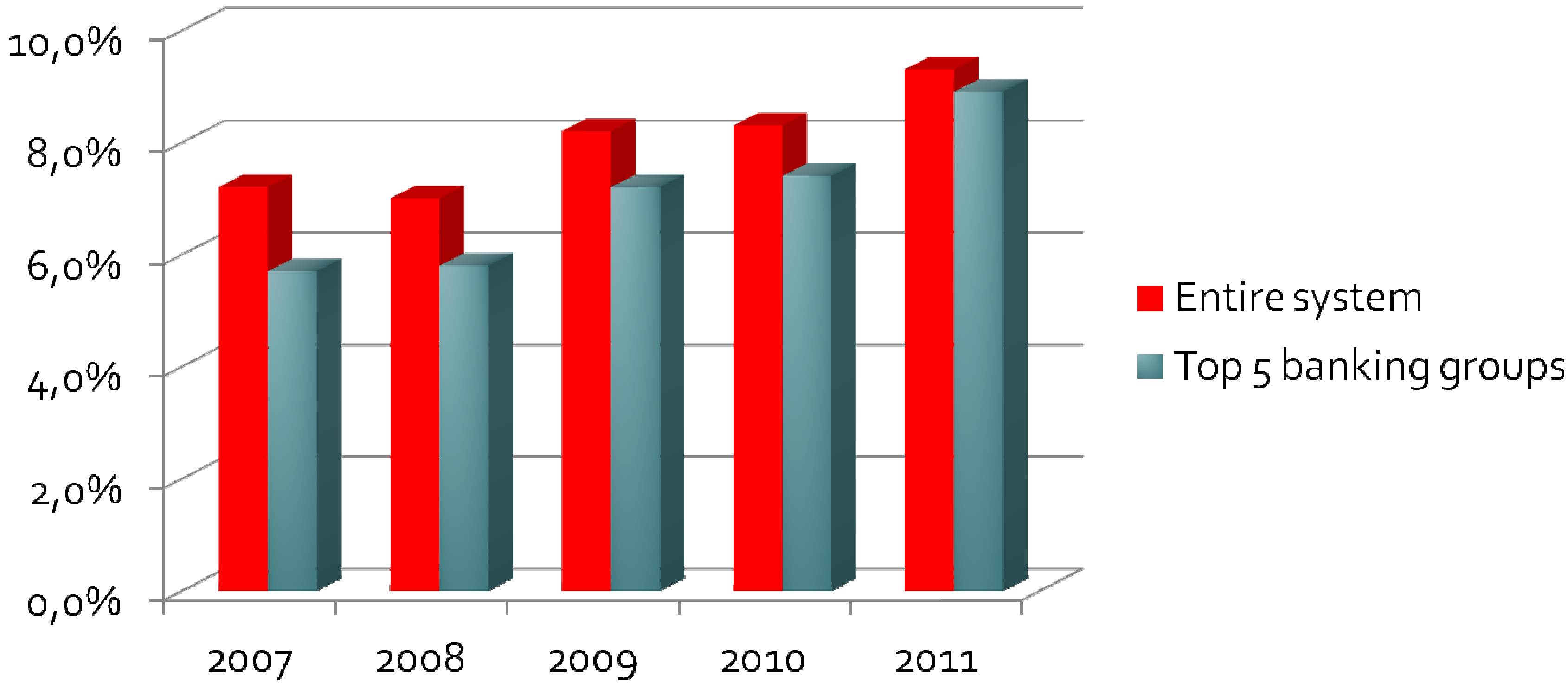
1. Recapitalisation Needs of Italian Banks

T1 R of the Italian Banking System (2007-2011)



T1 R = Tier 1 Ratios - Source: Bank of Italy's Annual Reports

CT1 R of the Italian Banking System (2007-2011)



CT1 R = Core Tier 1 Ratios - Source: Bank of Italy's Annual Reports


2. The First Recapitalisation
Scheme of 2008

What Were the "Tremonti Bonds"?

- Bonds issued by listed banks and subscribed by State or institutional investors, having the purpose of
  - Sustaining banks from a financial point-of-view by increasing CT1
  - Easing access to financing for individuals and businesses
- More precisely, Tremonti Bonds aimed at enabling banks to obtain interbank financing at more favourable conditions

What Were Their Main Characteristics?

Subordinated

Convertible

Perpetual

- Subordinated to other debts of the issuing bank in case of insolvency of the latter
- Convertible into shares upon request of the issuing bank
- Perpetual, because they do not have a due date and may be repaid by the issuing bank at any time

How Did They Work?

- The applying bank admitted to availing itself of the scheme by the MEF and the BoI had to
  - Execute a MoU with the MEF binding it to:
    - Ensure the same volume of financing to families and SMBs as compared to 2007 / 2008
    - Refrain from claiming repayment of instalments due under mortgage agreements by individuals in difficult employment situations
    - Sustain payments by businesses of what is due to employees under Wage Guarantee System (CIG)
  - Adopt a code of ethics setting limits to remuneration of top managers, certain employees and traders

How Did They Work? (Cont'd)

- The amount subscribed by the MEF could not exceed 2% of RWAs
- The rate of interest payable under the scheme increased over time and depended on the type of bonds chosen by the issuing bank
- Interest was payable only in the presence of distributable profits

How Did They Work? (Cont'd)

Model 1 – Long-term Financing	Model 2 – Short-term Financing
Early redemption premium from 10 to 20% payable to MEF during the first 4-year period	No early redemption premium
Interest rate between 7.5% and 8.25% in the same period	Fixed coupon of 8.5% during the first 4-year period
Purpose of mid-term capital rebalancing	Purpose of short-term liquidity rebalancing

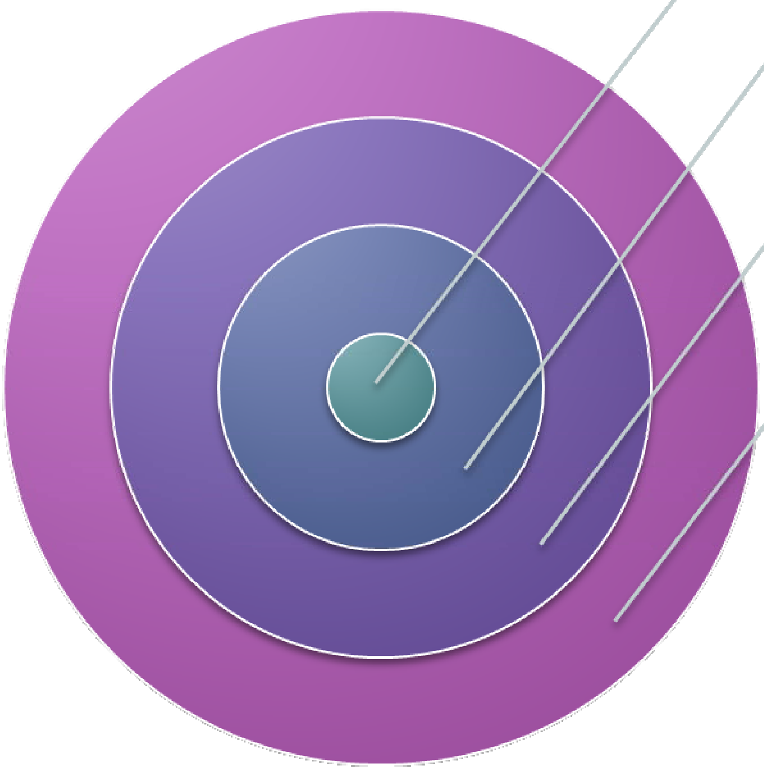
Conversion Options

Conversion into shares

Total or partial repayment

Financing for indefinite period of time

Actual Use of the Scheme



Actually used: €4.05 bn

Allocated by the MEF: €10 to 12 bn

Forecast by Deutsche Bank: €18 bn

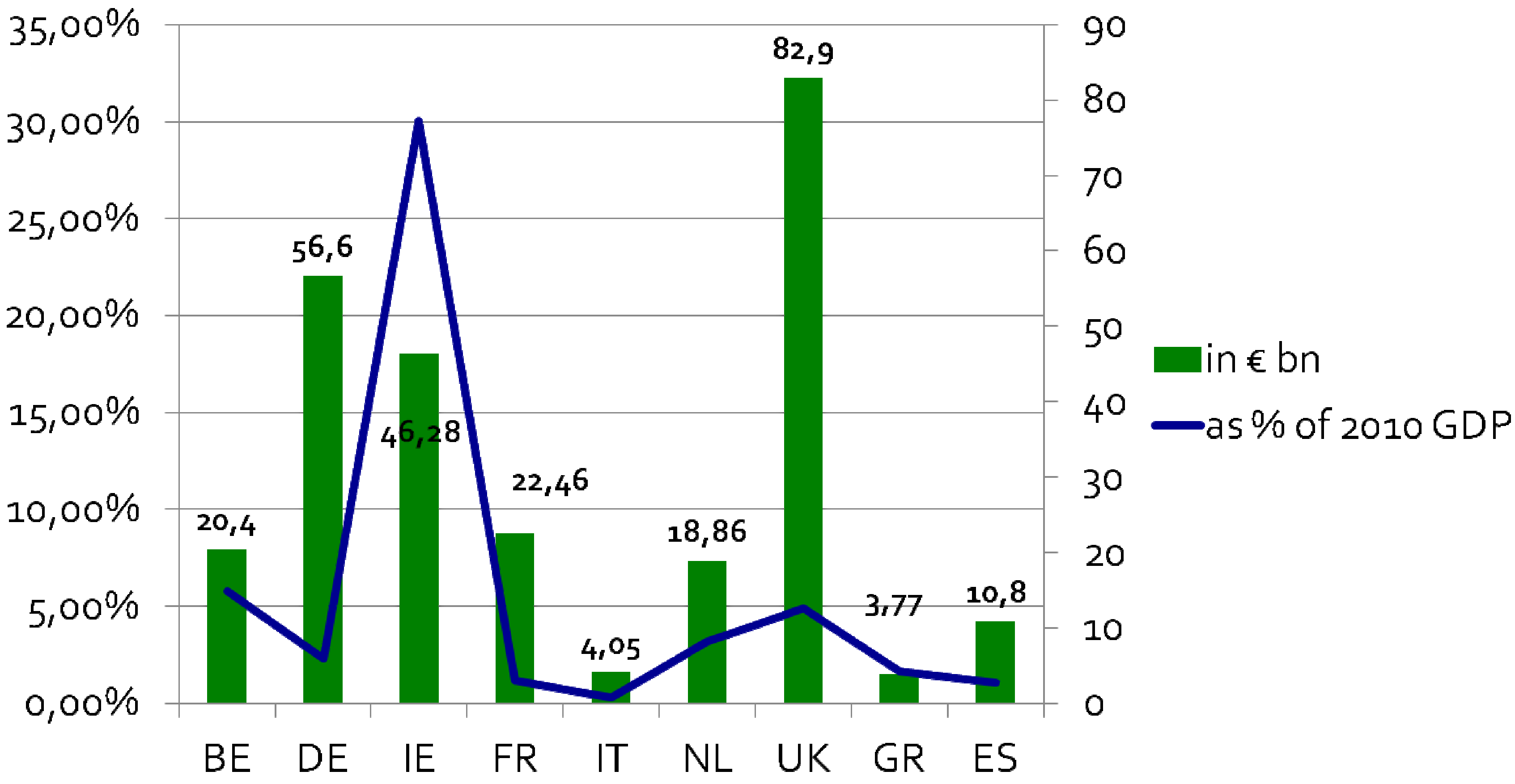
Forecast by the European Commission: €15 to 20 bn

Actual Use of the Scheme (Cont'd)

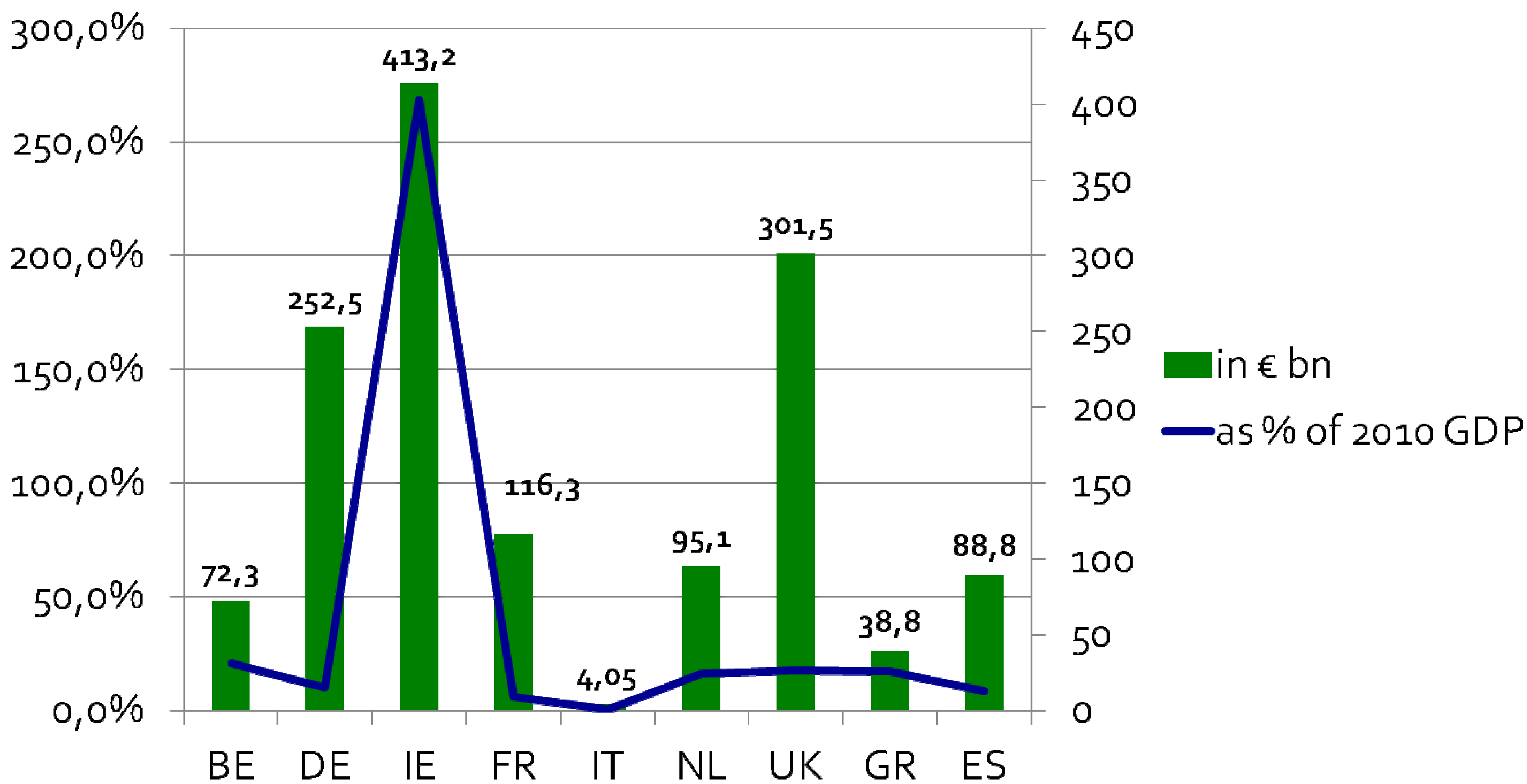
Bank	Amount Used	Amount Repaid
Banco Popolare	€1,450 mio	(€1,450 mio)
Banca Popolare di Milano	€500 mio	-
Monte dei Paschi di Siena	€1,900 mio	-
Credito Valtellinese	€200 mio	-
Total	**€4,050 mio**	**(€1,450 mio)**

3. Italian Banks vis-à-vis the EBA Recommendation of 8 December 2011

Amount of Used State Aid to FI (2008-2010) Recapitalisation Measures



Amount of Used State Aid to FI (2008-2010)
All Measures



Strengthening of the Top 5 Banking Groups' Capital Position in 2011

Ratio	31/12/2010	30/09/2011
CT1 R	7.2%	**8.8%**
T1 R	9.0%	**10.2%**
GSR	12.6%	**13.6%**

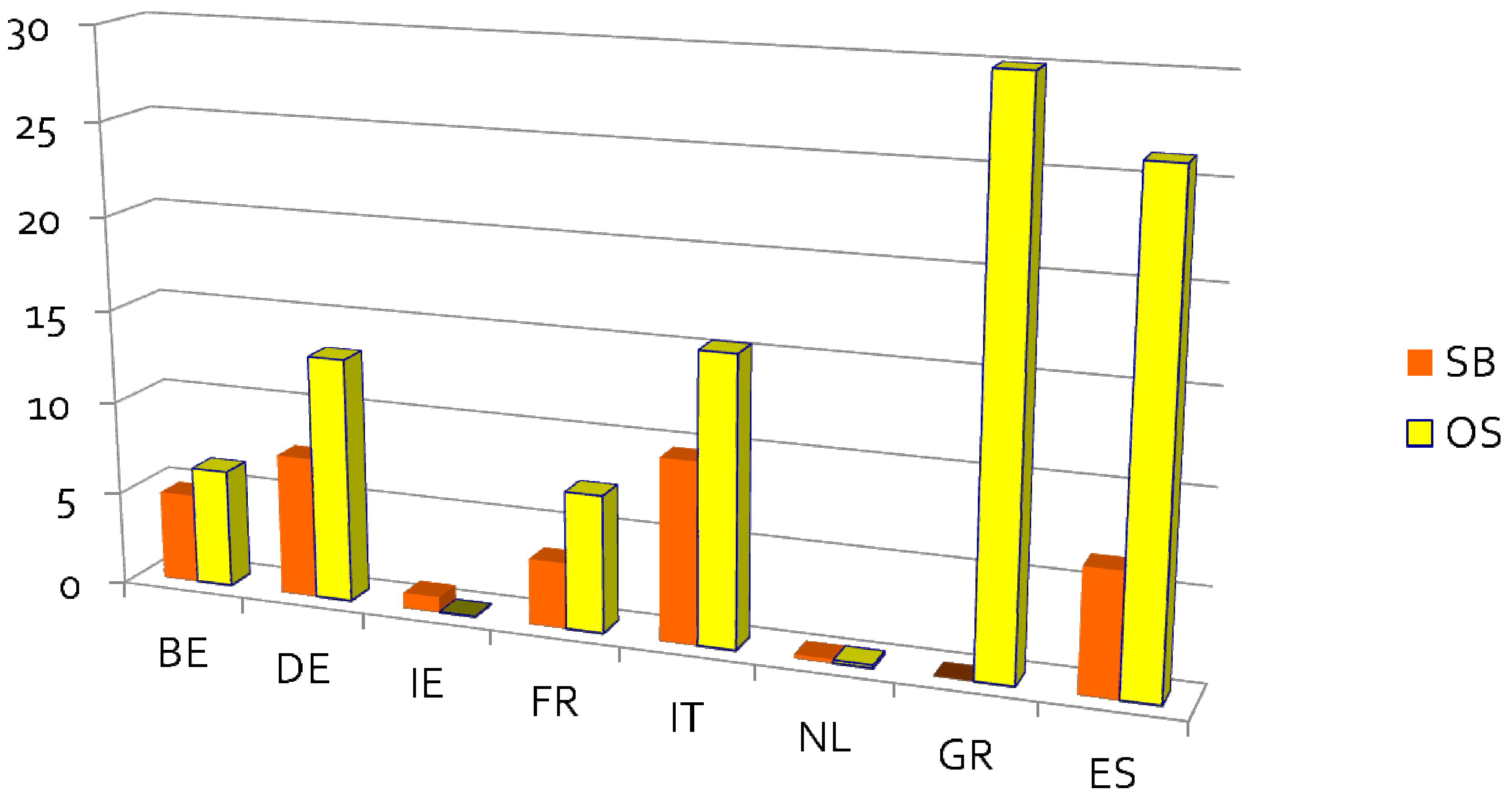
(Source : Saccomanni, GM of the BoI, "Issues Relating to the Capitalisation of Italian Banks", Report to the Italian Senate, Rome, 31/1/2012)

The strengthening above was obtained by only making use of private sources of funding

The EBA Recommendation

- In December 2011, the EBA recommended that banks establish temporary and exceptional capital buffers in response to the deepening sovereign debt crisis
- More precisely, the EBA required that banks, included in the sample, strengthen their capital positions by June 2012 by:
  - Building up an exceptional and temporary **capital buffer against sovereign debt exposures** to reflect market prices as of the end of September 2011
  - Establishing an exceptional and temporary buffer such that the **CT1 R reach a level of 9%**

EBA Recommendation of 8 December 2011
CT1 R=9%
(Sovereign Buffer vs. Overall Shortfall)



The Position of Italian Banks

- Five Italian banks were included in the sample selected by the EBA (Unicredit, Banca Intesa, Banca Monte dei Paschi, UBI, Banco Popolare)
  - One of these banks was already compliant with the buffer requirements
  - Three of these banks announced that their plans would allow them to meet the buffer requirements by making use of private sources of funding
  - One (Banca Monte dei Paschi) needed recapitalisation measures in the form of state aid

- The vast majority of the Overall Shortfall was due to Sovereign Buffer (€9.67 bn out of € 15.36 bn)

4. The "Monte dei Paschi Bonds"

Monte dei Paschi Bonds vs. Tremonti Bonds

- Monte dei Paschi Bonds are very similar to Tremonti Bonds, with the exception of the modifications needed to make them comply with the new regulation on state aid issued by the EU Commission on 1 December 2011

- The main differences between the two financial instruments can be summarised as follows:

Monte dei Paschi Bonds vs. Tremonti Bonds (cont'd)

	Tremonti Bonds	Monte dei Paschi Bonds
Limit to the subscription amount	No	€2+1.9 mio
Time limit for subscription	No	31 December 2012 for the first €2-mio tranche
Prohibition of acquisition of new shareholding	No	Yes
Obligation to draft a restructuring plan	No	Yes
Payment of interest	Only in the presence of distributable profits	In the absence of distributable profits, the bank shall provide the state with newly issued shares

"Hobbits liked to have books filled with things they already knew, set out fair and square, with no contradictions…"

(J.R.R. Tolkien, The Lord of the Rings)

Thank you for your attention

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