BMPS closes EUR 8.14bn AMCO deal but new risks beckon

Banca MPS's agreement in principle to transfer EUR 8.14bn in assets to AMCO, Italy's State-owned bad loan company, is a big step forward but it won't drive sustainable profits. The focus now is on dealing with the after-effects of Covid-19.

Subject to ECB approval, the transfer will cut BMPS's gross NPE Ratio from 12.4% to 4.3% and its Texas ratio from roughly 86% to 43%. The CET1 ratio, meanwhile, will fall slightly – from 14.7% to 13.3% (transitional) and from 12.7% to 11.1 % (fully loaded) relative to year-end 2019. The deal consists of EUR 2.313bn in NPEs (GBV EUR 4.798bn), UTPs with a net book value of EUR 1.843bn (GBV EUR 3.345bn); and smaller amounts of bonds and equities, derivatives positions and deferred tax assets.

"The sale of large NPLs portfolios has been a key element in the de-risking strategy of Italian banks in recent years," said Marco Troiano, deputy head of the financial institutions team at Scope Ratings. "This would be an important step for Monte at a crucial time when new balance sheet risks may start to pile up due to Covid-19.

Offloading this sizable slug of NPL, UTP and DTA exposure will help clear the way for the government to sell its current 68.247% stake in the bank (which will fall marginally depending on options available under the deal). The stake was acquired following the 2017 State bail-out. Management had already received a thumbs-up from the European Commission last month that the transfers will not contravene State assistance rules, which had led to formal discussions with the ECB and Italian regulator Consob to define necessary regulatory steps and map out the terms of the deal.

On the operational front, MPS has been slowly moving towards the terms of its restructuring plan, albeit with extensions to original deadlines. The plan included branch closures, headcount reductions, asset sales and raising EUR 1.45bn in Tier 2 subordinated debt. The original requirement had been to raise EUR 700m by 31 March 2018 and EUR 750m by the end of that year. Management did raise EUR 750m in January 2018 but was unable to do more owing to bouts of market volatility.

An additional EUR 300m was raised after the deadline in July 2019 with a very high 10.5% coupon. Only with the return of better capital market conditions was the bank able to fulfil the outstanding Tier 2 requirement: a EUR 400m 8% offering emerged in January (an extension had been granted until the end of 2020). That was the critical final component of the capital element of the plan. BMPS also sold three lines of senior preferred debt between July 2019 and January 2020, raising EUR 1.75bn of liquidity.

Figure 1: Banca Monte dei Paschi di Siena -- outstanding public debt

Issue date	Security type	Currency	Amount (m)	Coupon	Maturity
15-Jan-20	Tier 2	EUR	400	8.000%	22-Jan-30
16-Jul-19	Tier 2	EUR	300	10.500%	23-Jul-29
11-Jan-18	Tier 2	EUR	750	5.375%	18-Jan-28
21-Jan-20	Senior preferred	EUR	750	2.625%	28-Apr-25
17-Sep-19	Senior preferred	EUR	500	3.625%	24-Sep-24
4-Jul-19	Senior preferred	EUR	500	4.000%	10-Jul-22
1-Oct-19	Covered bond	EUR	1,000	0.875%	8-Oct-26
23-Jan-19	Covered bond	EUR	1,000	2.000%	29-Jan-24
19-Nov-15	Covered bond	EUR	1,000	2.125%	26-Nov-25
20-Oct-15	Covered bond	EUR	750	1.250%	20-Jan-22
8-Jul-14	Covered bond	EUR	1,000	2.875%	16-Jul-24
10-Apr-14	Covered bond	EUR	1,000	2.875%	16-Apr-21

*Callable from January 22 2025; **Callable from 18/01/2023. Source: Bond Radar

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On the business front, management surrendered banking licences in London, New York and Hong Kong, sold the Belgian subsidiary to Warburg Pincus (for a 10bp CET1 capital uplift), and the NPL recovery platform to Quaestio Cerved Credit Management. The servicer signed agreements to service at least 80% of new NPLs generated by BMPS over 10 years (with an initial value of approximately EUR 4.5bn) in addition to other NPLs arising from securitisations of BPMS assets and other securitisations promoted by Quaestio (for approximately EUR 17.6bn).

The sale in February this year of 28 commercial properties to investment company Ardian capped a series of NPL and UTP portfolio sales that started soon after the bailout with the EUR 24.1bn (GBV) Siena NPL 2018 S.r.l securitisation (see table). Scope's annual review of the transaction resulted in no change to the BBB+$_{SF}$ rating assigned to the Class A senior notes. "The rating continues to be supported by the amount of collections received so far and the high level of credit enhancement," Scope's May 6 review noted.

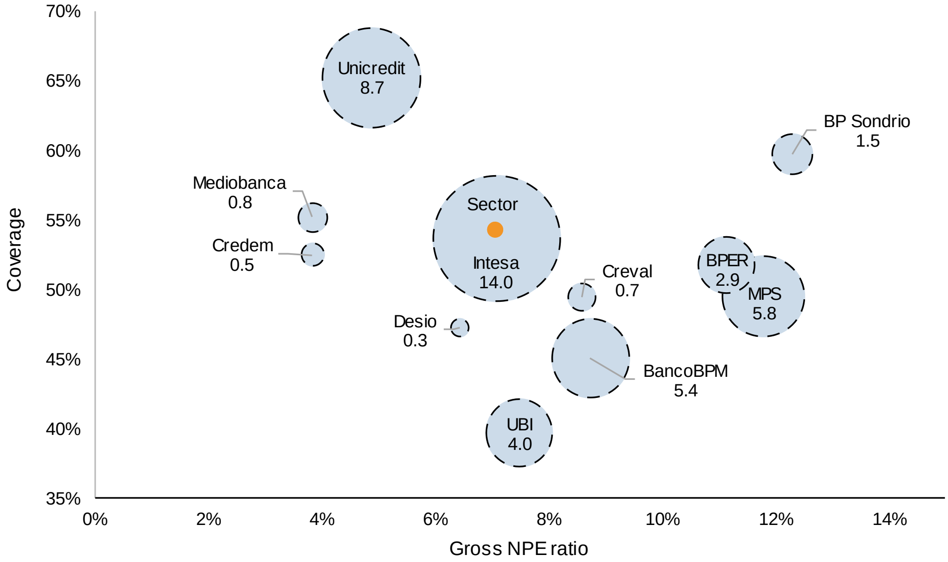
Figure 2: Banca Monte dei Paschi di Siena: NPL and other asset sales

Date	Size (EUR m)	Description
Feb-20	320-350*	Sale to Ardian of 28 mainly office buildings most located between Milan, Rome, Florence and Padua. Most of the value in five historical buildings
Dec-19	1,600	Sale of mainly unsecured NPLs to Illimity Bank
Dec-19	200	Two transactions: Disposals mainly UTP secured loans to corporate customers
Aug-19	137	Secured and unsecured NPLs
Aug-19	202	Three transactions -- mainly secured UTP exposures
Aug-19	455	Sale to subsidiary of Cerberus of UTP exposures mainly of secured loans to corporate customers
Jul-19	240	Sale of secured and unsecured loans, originally backed by an ISMEA guarantee to Illimity Bank
Jul-19	450	Sale to Illimity Bankof UTP unsecured loans to corporate customers
Jul-19	2,300	SME NPL securitisation through Siena PMI 2016 S.r.l -- two senior, three mezzanine and one junior tranche
Jan-19	2,200	Progetto Merlino: unsecured small-ticket and consumer credit NPLs divided into four clusters: small and consumer clusters (buyer: IFIS), mid cluster (Credito Fondiario and Fire); large cluster (Balbec Capital)
Jan-19	900	Progetto Morgano: sale of bad leasing loans to Bain Capital Credit
Jan-19	400	Progetto Alfa 2: sale of UTPs
Jun-19	565	Sale of 95% of junior notes relating to securitisation of bad loan porfolio to Questio Capital on behalf of Italian Recovery Fund
Jan-19	848	Sale of 95% of mezzanine notes to to Questio Capital on behalf of Italian Recovery Fund
May-18	4,331	Static cash securitisation of first lien secured (41.6% of GBV) and unsecured/junior lien secured (58.4%) NPLs extended to borrowers in Italy. Notes included EUR2,918.2m in GACS-guaranteed senior notes; EUR 847.6m in mezzanine notes and EUR 565m in junior notes (mezz and junior notes sold to Italian Recovery Fund managed by Quaestio Capital. Total GBV EUR 24.1bn.

*Estimate Source: Scope Ratings, based on bank data and market estimates for Ardian transaction.

Total group non-performing customer exposures were EUR 11.6bn at 31 March 2020, down EUR 4.5bn from the same period of 2019, owing to disposals particularly in the second half of 2019. The ratio of net non-performing exposures to net customer loans was 7.1% (9.2% at Q1 19). Coverage of total non-performing customer exposures of 49.6% is in line with the sector average. “With this sale, the asset quality of the group will be aligned with some of the best banks in Italy,” said Troiano.

Figure 3: Italian banks asset quality overview, as of March 2020



Source: Company data, Scope Ratings

The bigger operational headache for the new CEO – Guido Bastianini took over last month from Marco Morelli who stood down following the April AGM – is likely to be dealing with the impacts of Covid-19, including recession in Italy and depressed business conditions. These will hit the bank’s profitability, asset quality and balance sheet strength; it remains to be seen how much the support measures adopted by the government and European Central Bank will ease the situation. So while the NPL position may make the bank look more attractive to potential buyers, it won’t solve the issue of poor profitability. The bank reported a EUR 244m loss in the first quarter as revenues and provisions reacted to the deteriorating macro environment.

“I think GFC legacy asset-quality issues are less of a concern today,” said Troiano. “I believe investors will be more interested in how banks cope with Covid-19 and if they can find a sustainable way to long term value creation. With a cleaner balance sheet, MPS could be involved in a domestic consolidation process, which could be supportive of efficiency.”

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