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Testo del comunicato

Vedi allegato.

PRESS RELEASE

2016 EBA Stress Test Results

Siena, 29 July 2016 – Banca Monte dei Paschi di Siena S.p.A. (the “Bank” or “BMPS”) took part in the stress tests conducted by the European Banking Authority (EBA), in collaboration with the Bank of Italy (BI), the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB).

The Bank acknowledges today’s announcement made by the EBA regarding the EU-wide stress test and recognizes the results of the test.

Test results show a very severe impact for the Bank in the “adverse” scenario, indicating a 2018 CET1 ratio of -2.2%, whereas, in the “baseline” scenario, the CET1 ratio for 2018 is confirmed at 12%. The 2016 EU-wide stress test does not contain a pass/fail threshold and instead is designed to be used as a crucial piece of information for SREP in 2016. The results will thus allow competent authorities to assess banks’ ability to meet applicable regulatory constraints under stressed scenarios based on a common methodology and assumptions. The adverse stress scenario was designed by ECB/ESRB and covers three years (2016-2018), assuming a static balance sheet from December 2015, and therefore does not consider subsequent changes to the business strategy, to the restructuring plan currently under way, which disposes further developments over the next two years, or any other action which the Bank should put in place.

The results are driven by four main hypotheses.

Net Interest Income

The sharp rise in the cost of funding, the simultaneous significant curtailment of asset margins and the total elimination of default interests lead to a reduction of the CET1 ratio by 660bps in the three year period. This strong impact is tied to two main components:

- The increase in the cost of funding, caused by a 220bps prescriptive shock connected to the Bank’s low rating and transmitted to the various categories of liabilities according to predefined coefficients, leads to a cumulative decrease of the net interest income by c. EUR 2.2 billion income in the three years of “adverse” scenario (increased cost of funding is only marginally transferred to assets and is therefore not balanced by the re-pricing of the new business);

- Given the high stock of the Bank's non-performing loans, the removal of all interests accrued on defaulted loans leads to a net interest income decrease of another EUR 2.2 billion over the three years.

Credit Risk

Projected loan loss provisions, associated with stressed default rates and with a deterioration of the impaired portfolio, lead to a CET1 ratio loss of 230bps in the three-year period.

An extremely high cost of credit, in the adverse scenario, is connected to two main components:

- Forecasts for the probability of default (PD) of the various portfolios are affected by the high default rates observed by the bank in the past as a result of significant portfolio clean-up operations;
- The progressive deterioration of coverage (dictated by an adverse macroeconomic scenario) on the high non-performing loan stock generates significant additional provisions.

The prudentiality of the results is highlighted by the fact that, with a cost of credit of ~180bps in 2015 (already impacted by one-off events), further decreased in the first half of 2016, with an annualized cost of 134bps, cost projections for the three years of the adverse scenario come to about 240bps, 250bps and 230bps, respectively.

Market risk (AFS reserve)

The loss recorded on the sovereign bond portfolio, dictated by haircuts which were predefined by maturity, accounts for 160bps of CET1 ratio.

On this issue, it is noted that in the past the Bank had already begun a significant process of sovereign bond portfolio de-risking, with strong exposure cutbacks (from almost EUR 22 billion in December 2013 to ~EUR 16 billion at the end of December 2015) and that this process is still underway.

Capital Deductions

The significant income statement losses recorded above are further amplified by the Basel III calculation mechanisms for regulatory capital, which generate additional CET1 deductions (connected with DTAs and equity investments) for about 200bps.

In particular, certain capital items related to losses from deferred taxes and equity investments are deducted, as established by Basel III rules, from regulatory CET1 for the share exceeding 10% or 15% of CET1 itself. Consequently, because of the Bank's significant income statement losses over the three year test period, and the consequent decrease of CET1 capital, the amount deductible from these items increases, amplifying the impact on equity ratios. Also, due to the static balance sheet assumption, no equity sale is admitted, and these therefore contribute to the above described effect.

The Bank wishes to emphasize that these particularly severe results are strongly impacted by its high NPL ratio, as explained below:

- A large stock of NPLs implies greater adjustments to loans, because the recoverable portion of a deteriorated loan (and the consequent amount of adjustments) in a stressed scenario is significantly lower than that of a performing loan
- The large stock of NPLs decisively contributes to the low BMPS rating (the lowest of the five Italian banks subject to the EBA stress test). Because of how the stress test is designed, the initial rating of the financial institute impacts directly and prescriptively on the increased cost of funding under stressful conditions. In addition, a high stock of NPLs implies a higher cost of funding even in the current situation (not only in a stressed scenario), thus placing the Bank in an initial position of disadvantage compared to other Italian banks
- A large stock of NPLs clearly implies a higher proportion of non-interest-bearing assets to be financed and therefore an increased need for liquidity which, in line with the previous point, occurs at a higher cost than for other Italian banks
- The impact on capital of additional losses, or lower profits, generated by the previous points, is further amplified by the regulatory capital calculation mechanisms, which provide for the proportional deduction of certain capital elements (e.g. capital elements subject to the 10% and 15% thresholds, according to Basel III guidelines) to the amount of losses and tax credits generated by these losses that are not recovered in the course of the three year period.

According to the Bank's initial estimates, the above points explain over half of the 1,430bps negative impact on the CET1 ratio during the three year "adverse" scenario.

The transaction announced today, which provides for the sale of the entire bad loan portfolio and increased coverage on all other impaired loans, thus creating the conditions for a re-rating of the Bank, significantly mitigates the negative impacts of the exercise.

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This press release will be available at www.mps.it

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