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POSSIBLE RETURN TO THE STOCK MARKET IN LATE SEPTEMBER. THE CEO: PAY CUT OF 70%, BUT I REMAIN COMMITTED

MPS is starting afresh with 600 fewer branches and staffing level reduced by one fifth.

Return to profit in 2021. Morelli: we've got through the "accident and emergency" phase

by GIANLUCA PAOLUCCI

At the top
Marco Morelli, Montepaschi's CEO, announced he'd cut his salary by 70%

MPS is starting over with one fifth fewer employees and the closure of 600 of its approximately 2000 branches. More time will be needed for shares and bonds to return to stock market prices. According to CEO Marco Morelli, this could happen in the second half of September, once the flow of information with the market has been put right.

The entry of the State, possibly before the end of July (it will hold 70%, at a cost of 3.9 billion), sees a bank that has managed to withstand a true tempest. "The bank has shown that it is capable of reacting and managing a highly complicated period and situation; I don't think there are other examples in Europe of major companies that have experienced events like those MPS has gone through, in the last nine months but also going back further", commented Morelli. "It's been like the accident and emergency department", said Morelli, looking back over the last few months. "This is the basis", he continued, "that makes us, as management and all of the team, feel confident that the bank can now embark once again on a certain type of road, and regain the market share and the stakes that it has lost". To review its profitability, we'll need to wait until 2021, however, according to the plan submitted yesterday to the financial community.

After closing 2016 with a shortfall of €3.6 billion, the bank will, according to the new plan, achieve net profits of over €1.2 billion in 2021, with a return on capital of 10.7% and a CET1 ratio of 14%. This year, however, the expectation is for a heavy loss owing to the impact of the sale of non-performing loans (NPLs). The amount involved is €28.6 billion in all, of which €264 billion will go to Atlante II while another €2.5 billion concern positions of under €150,000 and leasing accounts that are being sold separately. The Juliet platform, which handles NPL management and recovery for the Siena-based group, could also end up in the hands of Atlante, along with Cerved. Before December, the NPL portfolio will be transferred to a vehicle which will issue about €8.7 billion in senior bonds, about €1 billion in mezzanine bonds and €686 million in junior bonds. 95% of the mezzanine and junior bonds will be transferred to Atlante II which, therefore, will be investing €1.6 billion. The senior bonds will be placed on the market, with state guarantees on NPL securitisation (Italian initials GACS). As regards the price paid by Atlante, 21% of the nominal price compared with the €27 of the failed operation in 2016, Morelli explained that "the €27 price was stuck at the July 2016 level, was part of a completely different agreement, and envisaged a warrant on the purchase of the NPLs. The market situation was different too; there had been transactions lower than our 21%".

As for the future share structure, the conversion of the group's subordinate bonds will bring out other important shareholders. Subordinate bond-holders will receive about 25/26% of the capital. Of these, the position of Generali stands out, with about 400 million in subordinate bonds, as does that of the Attestor fund, which on its own account, and that of other speculative funds, has apparently bought a significant share of Fresh 2008 (€1 billion nominal value). The approximately 40,000 small-scale investors holding subordinate bonds will be able to trade the shares they receive for debt instruments with better guarantees. The job losses will also be sensitive. A total of 5500 employees are involved, plus over 400 in branches abroad. For Italian staff, the redundancies will be entirely voluntary. Against these cuts, however, 500 new jobs are planned over the course of the plan.

Morelli and the other senior managers will be paid €466,000 euro. "A cut of 70%", said the CEO. "But I remain committed, irrespective of pay, even though my mandate can be revoked at any time".

The market's initial reactions have been positive. "The European constraints are bearable, the staff cuts manageable, and the 600 branch closures will give management a chance to cut loss-making branches and boost the bigger, profitable ones", observes Banor's Francesco Castelli.