

JOAQUÍN ALMUNIA
VICE-PRESIDENT OF THE EUROPEAN COMMISSION

Brussels, 16 / 7 / 2013

Dear Mr Saccomanni, *Caro Fabrizio,*

Let me thank you for your letter of 28 June 2013 presenting your views and comments about the state of BMPS and its perspective, with specific reference to the restructuring measures and commitments that BMPS is expected to implement as a result of the State aid received through the subscription by the Italian State of the so called "Monti Bonds".

As a preliminary comment, I would like to confirm that no particular reserves or obstacles appear to exist as regard the application to BMPS restructuring plan of the "proportionate assessment of the long term viability" provided for in paragraph 14 of the "Communication from the Commission on the application, from 1 January 2012, of State aid rules to support measures in favour of banks in the context of the financial crisis" (the 2011 Prolongation Communication). Yet, the scope of application of paragraph 14 of 2012 Prolongation Communication, so as to identify the restructuring needs of BMPS, still needs to be determined by the Commission.

From the procedural point of view, services of DG Competition responsible for the handling of the BMPS case and representatives from Italian Authorities have been in constant, open and fruitful contact and exchanged information. However as you know, the final decision in the BMPS case is a matter exclusively reserved to the College of Commissioners. From this perspective, a "pre-approval" of the content of restructuring plans or measures by the services responsible for handling State aid cases is not possible. This is of course without prejudice to the possibility for the services to informally provide, technical guidance, assistance and feedback to the interested parties based on the mandate and endorsement received from me after internal consultations.

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*Mr Fabrizio Saccomanni
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In particular as the details of BMPS' restructuring plan were gradually communicated to my services, they promptly drew the attention of Italian authorities and BMPS to the aspects of the restructuring where improvements were needed, namely: i) cost reduction and profitability ratio; ii) provisioning policies; iii) scale of trading activities; iv) overall exposure and sensitivity to sovereign risk; v) LME on subordinated debt and hybrid capital instruments; vi) remuneration policies. I have personally shared them with you in our phone call of 12 June 2013. These views were further discussed during the meeting held in Rome on 14 June 2013 between the Director General of the Italian Treasury Mr. Lavia and the Deputy Director-General for State Aids of DG Competition Mr. Koopman. Therefore, I fail to share the concerns that you have expressed as regards the process.

I note that in your letter you quantify the expected loss of revenues resulting from the discontinuation of proprietary trading by BMPS and from the progressive amortisation of the sovereign exposure to EUR 320 million. You further translate this amount into an FTE reduction of 5'000 employees. I do not share this methodology or the resulting figure. First, you seem to discard any possibility to reduce costs other than through an FTE reduction. Secondly, even assuming that the bank has a preference to reduce its cost only through a reduction of FTEs, the presented number of 5'000 does not correspond to the average personal cost and seems considerably inflated. I suggest that these technical questions are clarified among our services.

As I indicated earlier, I am foremost concerned with the viability of the bank. In order to allow the bank to restore its viability the existing restructuring plan needs still to be improved along the five points mentioned above and discussed during the last months.

Let me reiterate in this respect that for the purpose of the State aid procedure, measures that are otherwise required by law or by the regulator need to be included in the restructuring plan and can certainly not be considered as an additional burden. This concerns the proposed commitment to exit the LTRO when the LTRO arrives to maturity. This so called commitment is a description of a factual situation and does not represent any State aid procedure specific constraint for the bank. It would be more relevant for the State aid assessment that the bank clarifies and commits to the reductions which will be necessary for viability once the LTRO funding is no longer in place, along the reductions discussed with the case team.

Moreover, as regards the appropriate executive remuneration policies for banks that received State aid, let me point out that the Commission's position is to require a cap on remuneration of executive pay combined with incentives ensuring that the bank will implement its restructuring plan towards sustainable, long-term company objectives. That cap on total remuneration should be applied until the end of the restructuring period or until the bank has repaid the State aid, whichever occurs earlier. The total remuneration of any such individual may according to our new guidelines not exceed 15 times the national average salary in the Member State where the beneficiary is incorporated or 10 times the average salary of employees in the beneficiary bank. Whilst the State aid to BMPS was notified before the adoption of the new guidelines, the proposed remuneration levels are well in excess of what has been accepted by the Commission in comparable cases.

Finally, State aid rules aim at reducing the capital shortfall to the maximum extent possible and, therefore, require that cash outflows from the beneficiary to hybrid capital holders and subordinated debt holders be prevented to the maximum extent legally possible. This therefore also applies to the outstanding Upper Tier 2 subordinated bonds issues by BMPS. These rules have been consistently applied to all State aided banks.

As I indicated earlier, I am concerned about the capability of the BMPS to restore viability and I believe that it is now urgent that discussions between our services take place based on the orientation which I have provided during our June phone call and reiterated in this letter.

Finally, I have to advise you that in the absence of sufficient progress along these lines in the coming weeks, I would need to propose to the College of Commissioners to open the formal investigation procedure on the aid to BMPS.

Yours sincerely,

Best regards,

A large, stylized handwritten signature in black ink, appearing to be 'I-V' followed by a large, sweeping curve that ends in a sharp point.