



**NPLs: BMPS securitisation seeks final board approval; deal notable for lack of capital market investor participation.**

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The securitisation of **Banca Monte dei Paschi di Siena (BMPS)**' €26bn NPL portfolio is inching closer to completion, with details of the deal expected to be approved by the BMPS board tomorrow, according to industry sources.

**Atlante II** - the fund set up by the Italian government for NPL investments - is likely to buy all of the junior portion of the deal (expected to be worth €1.5bn), while the senior tranche will be provided with a state guarantee (GACS) and will be retained by BMPS. In this case, the holdings will have a 0% risk weight from a capital perspective.

It is unlikely that any third-party investors will be co-investing with Atlante II in the junior debt, however. Investment firms Fortress (which topped Italy's buyers league table in Deloitte's Deleveraging Europe 2016-2017 report) and Elliott were originally in talks with Atlante II to co-invest in the deal, but have since decided against participating after a disagreement on purchase price, according to sources.

"Considering the different parties involved so far, it is more a solution to solve BMPS' issues with the current instruments available, with no real capital market investors' involvement," said an industry source.

Norman Pepe, managing partner at the London office of Gitti and Partners, suggested that investors need further incentives before getting involved in deals such as this.

"The main point in the case of the BMPS securitisation is that investors are reluctant to subscribe to the junior tranches as there may be some uncertainty on whether they will recover their money," explained Mr. Pepe.

"In my opinion, an investor participating in the equity tranche of the NPL portfolio - the value of which is not easy to determine under the circumstances - may perceive the transaction differently if able to benefit from the newly re-capitalised bank by getting some equity or quasi-equity stake in the bank along with its investment in the NPL portfolio."

This is not the first time that BMPS has attempted the securitisation of its NPL stock. Late last year the bank was said to have attempted a multi-billion euro NPL securitisation; despite interest from one cornerstone investor, further subscriptions were necessary and the wider market showed no real interest.

Meanwhile, other Italian banks are preparing NPL securitisations. Earlier this month

Banca Carige transferred a bad loan portfolio of approximately €938m (gross) to an SPV which will issue different classes of securities over the coming weeks. Mezzanine and junior securities will be sold to investors and a request will be made to obtain the GACS guarantee on the senior tranche. According to an industry source, the senior guaranteed notes of the Banca Carige transaction will also be retained by the bank.

The timeframe for the use of GACS will be coming to an end in a few months' time. According to the GACS documentation, it should last for 18 months from the entry into effect of the decree, which was in April 2016.

It is uncertain whether the NPL securitisations planned by Banco Popolare di Vicenza and Veneto Banca will be completed after both banks were deemed insolvent by the ECB late last week. Both banks are to be wound up under Italian insolvency rules, while Intesa SanPaolo has agreed to purchase the 'good assets' of the two banks for the sum of €1.