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## HOW JPMORGAN COULD NOT SAVE ITALY'S PROBLEM BANK

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On the morning of July 29, former Italian Industry Minister Corrado Passera was traveling in a high-speed train toward the medieval city of Siena, racing to meet the directors of the world's oldest bank to present them with a rescue plan.

Monte dei Paschi di Siena, Italy's third-largest lender, was destined to be wound down within months unless it could raise billions of euros and pull itself out of a swamp of bad loans that threatened to swallow up its five centuries of banking.

Passera's recapitalization plan was supported by Swiss investment bank UBS - Monte dei Paschi's long-time adviser - but the former minister was running out of time.

The Tuscan lender had already changed advisory horses - turning away from UBS and Citi, and instead engaging JPMorgan to engineer a survival strategy, according to bankers close to the matter. Its board was meeting that day at its HQ in a 13th-century fortress to decide whether to formally commit to the Wall Street player's plan, they said.

Veteran banker Passera felt he would at least have a chance to make his case. He didn't. As the train reached Florence, about 70 km from Siena, his phone rang. Monte dei Paschi's chairman told him the board would not hear him, according to a source familiar with the events.

The bank had instead pinned its fate on JPMorgan's plan to clear out 28 billion euros (\$29 billion) in bad debts and raise 5 billion euros in equity - one that ended in failure in the early hours of Friday when the Tuscan lender said it could not find enough investors and asked the government to bail it out.

For the plan's skeptics, the failure to rescue the bank privately was testament to a misplaced belief in government circles that Italy could find a solution to its banking problem child without the need for a politically unpopular state bailout.

Passera's proposal - never made public - had involved a 2.5-billion-euro capital increase reserved for private equity funds and a 1-billion-euro share sale to existing Monte dei Paschi investors, according to the source familiar with events.

Bankers say that was unlikely to have met with any more success than JPMorgan's, given the lack of investor appetite for Monte dei Paschi and the wider banking sector. Italian banks are creaking under the weight of 360 billion euros of bad loans - a third of the euro zone's total - following the financial crisis.

But the fact the bank laid its entire trust in JPMorgan, and a plan that European regulators in Brussels and Frankfurt said from the outset was destined for failure, nevertheless underscores the government's mismanagement of a problem that continues to cast a shadow over the country and its economy.

Unlike Spain, Rome refused an EU-funded bailout for its banks when European rules for doing so were more lenient, and for too long failed to take decisive action to deal with its lenders' bad loans. Monte dei Paschi, which had already received state aid twice before, has become a symbol of the government's inefficiency in tackling the problems of its banking industry.

## RENZI LUNCH

Three weeks before Passera's wasted train journey, the idea of a privately funded bailout of Monte dei Paschi was born over lunch in Rome between JPMorgan's global chief, Jamie Dimon, and then Prime Minister Matteo Renzi, according to banking and political sources.

Renzi thought he had finally found the man who would fix one of his biggest political headaches, despite the fact that JPMorgan's plan would involve raising 10 times the market value of Monte dei Paschi, a feat virtually unheard of in Europe.

Renzi, who hails from the bank's home region of Tuscany, wanted to avoid a state rescue at all costs, because new European rules would require investors to bear losses in the event of a taxpayer funded bailout.

The bank's bondholders include tens of thousands of Italians, many of them part of his political power base.

A spokesman for Renzi did not respond to requests for comment.

JPMorgan in turn hoped to break into big Italian deal-making, a sphere where this year it lagged behind U.S. rival Goldman Sachs with its investment banking fees more than halving since 2014, according to Thomson Reuters data.

If the plan succeeded, JPMorgan and its co-adviser Mediobanca, alongside 10 other investment banks and state-sponsored banking fund Atlante, stood to share in fees worth 558 million euros, roughly equal to Monte dei Paschi's market capitalization, publicly available documents show.

By winning over the board of the Tuscan bank, JPMorgan and Mediobanca elbowed out rivals UBS and Citi, all battling to earn a jackpot of fees in a sector that could need 40 billion euros in capital over the next few years.

Monte dei Paschi said on Thursday the banks involved in the failed rescue plan would receive no fees.

## ALARM BELLS

Alarm bells began ringing loudly over the feasibility of the plan in early September, when Monte dei Paschi abruptly announced its chief executive, Fabrizio Viola, was quitting.

Viola had received a phone call from Economy Minister Pier Carlo Padoan who told him he needed to go, according to a source close to the matter.

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Speaking about the episode on TV in October, Padoan said that given the Treasury was the bank's top shareholder following a previous bailout in 2013, it had to have a relationship with its top management. "With Viola, we assessed together what was best for the bank," he said.

After sounding out hundreds of investors during the summer, JPMorgan and other banks involved in the deal believed that a change of management was necessary to pull off the plan, because under Viola the bank had burned through 8 billion euros of new capital, according to sources close to the consortium of banks.

Monte dei Paschi replaced him with Marco Morelli, head of Bank of America Merrill Lynch in Italy, who rushed through a new business plan. He then launched an international roadshow, meeting 280 investors in Europe, the United States and Asia to seek their backing.

The response was muted. One official at a hedge fund who took part in a meeting held at JPMorgan's New York offices described the atmosphere as antagonistic and said the audience was confused by the complexity of the plan.

Desperate to find investors and meet regulatory demands, the bank's board held marathon meetings that often dragged on late into the night as they adjusted their plans and prospectuses, with pizzas and crates of mineral water being brought in.

It was not uncommon for statements to come out in the early hours of the morning. Morelli only managed to grab three hours sleep a night, according to an aide.

The death knell for JPMorgan's rescue sounded on Dec. 4 when Italians effectively cast a vote of no confidence in Renzi, rejecting his constitutional reforms in a referendum. He quit, setting the stage for months of political instability and scaring off potential investors in Monte dei Paschi.

The government crisis effectively sunk the bank's final hope: a 1-billion-euro investment by Qatar's sovereign wealth fund never materialized.

Sources close to the consortium of investment banks said they worked very hard to salvage the deal, but the referendum was the final nail in the coffin.

(Additional reporting by Stefano Bernabei and Giuseppe Fonte in Rome, Silvia Ognibene in Siena, Maiya Keidan and Ritvik Carvalho in London; Editing by Mark Bendeich and Pravin Char)

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