

# Italian banks: favourable transformations

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## WisdomTree

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The Italian banking industry is experiencing a profound transformation. The sector's restructuring efforts through recapitalisations, cost cutting and M&A have strengthened balance sheets and we believe, as shown in chart 1 below, that many companies are trading at deep discounts versus their European peers. While some argue that this restructuring is reducing their discounts, given the ECB continues to be supportive through cheap loans and that the macro backdrop for the Eurozone economy is stabilising, we believe Italian banks' strong run may still be sustained.

### Chart 1: Italian bank's deep discount to Eurozone's peers and broader market

Price to book value (multiple)

Source: Bloomberg

So what does this restructuring mean for current and aspiring investors of Italian banks?

Below we highlight the changes that the restructuring has had specifically on the FTSE MIB Index—the only index that offers targeted exposure to Italian banks.

### Summary of changes in the Italian banking sector

Below is a summary of some of the most relevant events affecting the Italian banking industry since November 2016:

- June 2017: A rescue deal to inject up to EUR 6.6 billion into Monte dei Paschi di Siena approved by EU authorities.
- June 2017: Banca Popolare di Vicenza and Veneto Banca are wound down through the acquisition of their good assets by Intesa Sanpaolo for one euro. The Italian government agrees to pay EUR 5.2 billion to Intesa to ensure its capital ratios and dividend policy are not affected by the deal and gives it guarantees of up to EUR 12 billion against unexpected losses.
- March 2017: Banca Monte dei Paschi di Siena was removed from the Index.
- February 2017: Following its asset sale of Polish lender Pekao and of its investment arm Pioneer to Amundi, Unicredit raised EUR 13 billion in equity in a heavily discounted rights issue.
- January 2017: Banco BPM, the bank created from the merger of Banco Popolare and Banca Popolare di Milano in 2016, started operations as the third largest retail and corporate banking conglomerate in Italy.

- December 2016: Banca Monte dei Paschi di Siena suspends trading.

### **How well does the FTSE MIB Index represent the transformed Italian banking industry?**

Since its launch nine months ago with the investment objective to provide the performance of the FTSE MIB Banks 15% Capped Net Tax Index (<FMIBBN Index>), after fees, the Index is a sub-family of the Italian FTSE MIB Index benchmark sponsored by FTSE. It tracks the performance of the FTSE MIB Index constituents classified as “Banks” in accordance with the Industry Classification Benchmark rules.

The Index constituents are weighted by market capitalisation after adjusting for float. To provide an adequate and balanced representation of the Italian banking sector, the Index constituent weights are capped at 15% and the Index rebalances to such weights quarterly in March, June, September and December.

### ***Tables 1 and 2: Changes in the index composition***

Three of the underlying constituents in November 2016 are no longer in the new index composition at 28 June 2017. This means the Index accurately reflects the changes within the Italian banking industry.

### **Index composition on 12 September 2017**

UNIONE DI BANCHE ITALIANE

INTESA SANPAOLO

UNICREDIT SPA

MEDIOBANCA

FINECOBANK

BPER BANCA

### **Index composition on 21 November 2017**

INTESA SANPAOLO

MEDIOBANCA

UNICREDIT SPA

FINECOBANK

UNIONE DI BANCHE ITALIANE

BANCA POPOLARE DELL EMILIA ROMA

BANCO POPOLARE

BANCA POPOLARE DI MILANO SCARL

## BANCA MONTE DEI PASCHI DI SIENA

### **How has the Index performed?**

Performance of the Index since the launch of the Boost FTSE MIB Banks ETP (ITBL) has been 64%, outperforming the FTSE MIB index by almost 23%.

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