



UPDATE 1-Italy OKs bonds measure to boost bank capital

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* Italy OKs bank capital-boosting scheme using bonds

* Size seen at up to 12 bln euros

* Banks silent on report would use up to 9 bln euros

(Releads with govt approval, updates shares, previous MILAN)

By Deepa Babington

ROME, Feb 25 (Reuters) - Italy has approved a scheme to bolster banks' capital through bonds, the economy ministry said on Wednesday, in a crisis-fighting measure expected to reach up to 12 billion euros (\$15.4 billion).

The capital-boosting move is the latest attempt by euro zone governments to support banks and economies battered by the credit crisis. Italy's aid is dwarfed by that of other countries and is limited by its public debt, the world's third biggest.

Under the scheme approved by Economy Minister Giulio Tremonti, banks would issue bonds that the government would buy and use the proceeds to shore up their capital, the ministry said in a statement.

The securities -- known as "Tremonti bonds" for the minister -- will have an annual yield of between 7.5 percent and 8.5 percent for the first few years before gradually increasing.

Banks will be obliged to continue lending to small- and medium-sized firms and to households and to provide mortgage relief for people receiving unemployment benefits or who are sent home on lower pay.

The statement did not give the size of the package. In announcing the move in November, Tremonti put it at between 10 billion euros and 12 billion euros.

LIMITED EXPOSURE

Italian banks have been relatively unscathed by the credit crisis since they have limited exposure outside the country's conservative lending market.

Leading banks had no comment about a report in la Repubblica newspaper on Wednesday that they would use up to 9 billion euros of the package.

The newspaper said UniCredit SpA and Intesa Sanpaolo SpA would each take up to 3 billion euros. Banca Monte dei Paschi di Siena SpA and Banco Popolare will use around 1.5 billion euros each, it added.

The four banks will form a "common front" to avoid the potential stigma of seeking help individually, the newspaper said.

Spokesmen for Intesa Sanpaolo and UniCredit, Italy's two largest banks by market value, had no comment. Top executives at the banks and at Monte dei Paschi have said they would evaluate the bonds' conditions before deciding whether to take part.

The bond measure, approved by the European Commission last week, aims in part to raise banks' Core Tier 1 ratios to 8 percent. The ratio is a standard of capital held against risky assets.

It also sets an alternative remuneration option with a higher initial coupon. The measure lets private investors subscribe to at least 30 percent of the bond.

"I believe that all the banks will issue Tremonti bonds" except investment bank Mediobanca SpA, said Manuela Meroni, an analyst at Banca IMI. Mediobanca has a Core Tier 1 ratio of 10.2 percent.

The banks that use the bonds will repay them within four years as part of an alternative option to reduce costs, she said.

Shares in UniCredit were up 2.55 percent at 0.9865 euro at 1412 GMT, trailing a 3.12 percent rise in the DJ Stoxx banks index <.SX7P>.

Intesa Sanpaolo was up 2.95 percent at 1.921 euros, Banco Popolare was down 3.55 percent at 3.0525 euros and Monte dei Paschi was down 0.6 percent at 0.997 euro. (Additional reporting by Ian Simpson, Nigel Tutt and Andrea Mandala in Milan and Stefano Bernabei in Rome; Editing by David Cowell) (\$1=.7780 Euro)

ITALY-BANKS/BOND (UPDATE 1)|LANGEN|C|D|E|M|O|U|MTL|GRO|SOF|OIL|G|RBN|RNP|PGE

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