

The liquidation of Banca Pop. di Vicenza and Veneto Banca

1. Introduction: Why it has come to this

It should be remembered that this Government decree **provides a solution to a crisis that began many years ago**. It began with **a style of management that led to the collapse** of two important banks in an important geographic area.

The decree provides **protection** for:

- **Employees**
- **Current account and savings account holders**
- **Businesses and tradesmen** who have been able to carry on working in these recent months of uncertainty thanks to the ongoing support of the two banks.

The government would have liked to proceed with a precautionary recapitalisation but the poor condition of the two banks and the absence of private investors made this path impracticable.

2 . Honouring the Commitment to Safeguard Savings

With this decree, the Government is honouring its commitment to protect savings: current and savings account holders are not even touched by the crisis; senior bondholders will be reimbursed at maturity; individual investors who purchased subordinated (junior) bonds will be reimbursed by the *Fondo Interbancario di Tutela dei Depositanti* [Interbank Deposit Protection Fund] and by a contribution from Banca Intesa.

3. The Procedure

On Friday 23 June the [European Central Bank assessed](#) the two banks' state of failure and the Single Resolution Board (SRB) ruled that not all the requirements for a resolution were met, in accordance with European rules (the Bank Recovery and Resolution Directive - BRRD). Of the three requirements, according to SRB there is no “public interest” in this case, i.e. these banks are not considered systemic for the Eurozone.

At this point, the national procedures laid down in the Single Banking Act, i.e. **forced administrative liquidation**, would be triggered. However, the ordinary procedure would be likely to have negative consequences for the industrial and social fabric of the area, for jobs and for depositors, and therefore the Government has decided on public measures in support of an orderly liquidation of these banks.

The Ministry, on the advice of the Bank of Italy, has followed a path that includes these steps:

- i. subject the banks to compulsory administrative liquidation
- ii. arrange for continuation of the banks' businesses
- iii. arrange for the sale of the banks or parts thereof to a buyer
- iv. put in place public support measures to assist in the sale.

So the Bank of Italy appointed the liquidators who sold a part of each bank to Banca Intesa. Banca Intesa was selected on the basis of an open, competitive, non-discriminatory procedure.

4. State Aid

Public aid consists of four measures:

- a) granting of a State guarantee to balance the impact of the sale on the capital requirements of Banca Intesa
- b) provision of financial support to replenish the transferee's own assets in an amount that is appropriate for managing the absorption of risk-weighted assets
- c) granting of a State guarantee for the fulfilment of obligations taken on by the banks in terms of commitments, declarations and guarantees
- d) distribution to the transferee of funds in support of business restructuring measures.

This aid is allowed by the European rules because it meets four requirements:

- i. the costs of liquidation must be kept to the minimum necessary,
- ii. distortions of competition must be limited,
- iii. shareholders and subordinated creditors must share the rescue burden
- iv. when a division of a company is acquired by a third party, the transaction must not affect the operating capabilities of the latter.

5. How much will the rescue cost?

State aid amounts to €4.785 billion in cash and €400 million in guarantees, covering commitments of up to €12 billion. **In total, a maximum of €5.2 billion.**

Details:

- a) Financial support to Banca Intesa up to €3.5 billion in order to prevent the acquisition of loans from undermining its equity ratios due to taking over the business relations existing between the two banks. **This assistance is fundamental because it is precisely this intervention that guarantees the continuity of provision of credit to the present customers of the two banks (families, businesses, artisans).**
- b) Delivery of up to €1.285 billion to the banks being liquidated for the management of staff.
- c) A guarantee of up to €6.351 billion, corresponding to repayment of the debts not deemed to be good following careful due diligence. Five billion are good debts, guaranteed, to which approximately one billion could be added after the due diligence.
- d) Guarantees of up to €4 billion for currently performing debts that are at high risk.
- e) Guarantee regarding the legal risks of the banks being liquidated (to be verified, starting from 1.5 billion - not exceeding 2 billion).

In total, the guaranteed amount may reach €12 billion. **Of this amount, the (fair value) exposure of the State is €400 million.**

6. Why are resources being given to Banca Intesa?

According to European rules, when a division of a company is acquired by a third party, the transaction must not affect the operating capabilities of the latter. In acquiring customers' business, even simple current accounts, Banca Intesa takes upon itself the overdrafts of families and businesses that enable them to carry on, but these have a negative impact on the bank's assets.

In fact, with Banca Intesa's intervention, public interests are safeguarded and this should not do harm to the bank itself; hence the resources made available by the Government.

This intervention involves costs for the State but without this intervention the costs for the community at large would have been much higher.

Banca Intesa participated in an open, competitive, non-discriminatory selection procedure and made the only significant proposal.

7. What happens to the bad debts?

Bad debts and other assets not sold to Banca Intesa may be ceded to the Società per la Gestione di Attività S.p.A. (an Asset Management Company – owned by the Ministry of the Economy and Finance - which has the skills and experience to recover these debts to the extent possible). The proceeds of this activity will help enable the banks being liquidated to pay their own creditors.

8 . EU rules: has Italy violated the rules?

In recent days, two contradictory accusations have been levelled at the Government and both are groundless:

- The Government is said to have broken the European rules on bail-ins, or at least to have played fast and loose with the rules, with the complicity of the European authorities.
- The Government is said to have accepted the will of the European authorities against the national interest, rather than challenging them and proceeding with a precautionary recapitalisation even without their consent.

A clear answer to both accusations:

1. The Government has dealt with every situation with a view to providing the best possible response to each individual case in the light of its specific features. On each occasion, the most appropriate rules have been chosen to resolve crises and minimise damage. In the case of the four regional banks, the resolution was adopted with burden-sharing; in the case of Monte dei Paschi, precautionary recapitalisation was the answer; in the case of the two Veneto banks, given the impossibility of a precautionary recapitalisation, liquidation supported by State aid was chosen.
2. The Government did not "challenge Europe", as some suggest, with a precautionary recapitalisation carried out exclusively with public money, for a very simple reason: aid provided without the Commission's consent would mean the bank would have to set up a risk fund for an amount equal to the aid it received, thus rendering the aid vain.

9. Why was precautionary recapitalisation considered infeasible?

Because, as demonstrated by the decision of the European Central Bank, the two banks were already in serious financial difficulty. Obviously this is the reason no investor showed interest in matching the public intervention.

10. Summary of the Operation

- a) The two banks being wound up cede a part of their activity to Banca Intesa, including most of their employees and customer relationships.
- b) The banks being liquidated retain their bad debts and some of their staff, to be managed by way of a restructuring for which €1.285 billion has been set aside.
- c) The two banks being liquidated will pass on their bad loans to the SGA, which has the experience and expertise to recover them in a reasonable time. In exchange, the banks being liquidated will have a claim against SGA which will be honoured over time with the recovery of individual debts.
- d) In order to meet the liabilities that are not absorbed by Banca Intesa, Banca Intesa itself funds the companies being wound up with a State-guaranteed loan.
- e) Ordinary bonds remain in the hands of the companies being liquidated and will be honoured at their respective maturities.
