European Commission - Press release

# State aid: Commission approves aid for market exit of Banca Popolare di Vicenza and Veneto Banca under Italian insolvency law, involving sale of some parts to Intesa Sanpaolo

Brussels, 25 June 2017

**The European Commission has approved, under EU rules, Italian measures to facilitate the liquidation of BPVIand Veneto Banca under national insolvency law. These measures involve the sale of some of the two banks' businesses to be integrated into Intesa Sanpaolo. Deposits remain fully protected.**

This announcement follows the declaration by the European Central Bank (ECB), in its capacity as supervisory authority, of23 June 2017 that Banca Popolare di Vicenza (BPVI) and Veneto Banca were failing or likely to fail and the decisions bythe Single Resolution Board (SRB), the competent resolution authority, that resolution action is not warranted in the public interest in either case. EU law foresees that, in such circumstances, national insolvency rules apply and it is for the responsible national authorities to wind up the institution under national insolvency law. In this context, if Member States consider public support necessary to mitigate the effects of a bank's market exit, EU State aid rules apply, in particular the 2013 Banking Communication, requiring that shareholders and subordinated bondholders fully contribute to the costs (so-called "burden-sharing") and competition distortions are limited. Senior bondholders do not have to contribute and depositors remain fully protected in line with EU rules.

Commissioner in charge of competition policy, Margrethe **Vestager**, said: *"Italy considers that State aid is necessary to avoid an economic disturbance in the Veneto region as a result of the liquidation of BPVI and Veneto Banca, who are exiting the market after a long period of serious financial difficulties. The Commission decision allows Italy to take measures tofacilitate the liquidation of the two banks: Italy will support the sale and integration of some activities andthe transfer of employeesto Intesa Sanpaolo. Shareholders and junior creditors have fully contributed, reducing the costs to the Italian State, whilst depositors remain fully protected.These measures will also remove €18 billion in non-performing loans from the Italian banking sector and contribute to its consolidation."*

The SRB has concluded that resolution action is not warranted in the public interest for either BPVI or Veneto Banca, which means that Italian authorities have to wind-down the banks under Italian national insolvency procedures. In this context, Italy has determined that the winding up of these banks has a serious impact on the real economy in the regions where they are most active. Outside the European banking resolution framework, EU rules foresee a possibility for Italy to seek Commission approval for the use of national funds to facilitate the liquidation by mitigating such regional economic effects. As the aided banks exit the market there should be no distortion of competition in European banking markets.

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On 24 June 2017, Italy notified to the Commission its plans to grant State aid to wind-down BPVI and Veneto Banca.The measures will enable the sale of parts of the two banks' activities to Intesa, including the transfer of employees. Italy selectedIntesa Sanpaolo (Intesa) as the buyerin an open, fair and transparent sales procedure: The measures will also enable the wind down of the remaining liquidation mass, financed by loans provided by Intesa.

In particular, the Italian State will grant the following measures:

- **Cash injections** of about €4.785 billion; and
- **State guarantees** of a maximum of about €12 billion, notably on Intesa's financing of the liquidation mass. The State guarantees would be called upon notably, if the liquidation mass is insufficient to pay back Intesa for its financing of the liquidation mass.

Both guarantees and cash injections are backed up by the Italian State's senior claims on the assets in the liquidation mass. Correspondingly, the net costs to the Italian State will be **much lower than the**

**nominal amounts of the measures provided**.

The Commission found these measures to be in line with EU State aid rules, in particular the 2013 Banking Communication. Existing shareholders and subordinated debt holders have fully contributed to the costs, reducing the cost of the intervention for the Italian State.Both aid recipients, BPVI and Banca Veneto, will be wound up in an orderly fashion and exit the market, while the transferred activities will be restructured and significantly downsized by Intesa, which in combination will limit distortions of competition arising from the aid.

The subsequent deep integration by Intesa will return the sold parts to viability. The Commission also confirmed that the measures do not constitute aid to Intesa, because it was selected after an open, fair and transparent sale process, fully managed by Italian authorities, ensuring that the activities were sold at the best offer available.

**Background**

**Banca Popolare di Vicenza** is a small Italian commercial bank, located in the Veneto Region, which mainly operates in the north-eastern regions of Italy. As of 31 December 2016, Banca Popolare di Vicenza had around 500 branches and a market share in Italy ofaround 1% in terms of deposits and around 1.5% in terms of loans. As of December 2016 the bank had total assets ofslightly below €35 billion.

**Veneto Banca** is a small Italian commercial bank, located in the Veneto Region, which mainly operates in the North of the country. As of 31 December 2016, Veneto Banca had around 400 branches and a market share in Italy of around 1% in terms of deposits and in terms of loans. As of December 2016 the bank had €28 billion of total assets.

In April 2017, BPVI and Veneto Banca made requests to the Italian State for a "precautionary recapitalisation" to address their capital shortfalls, which were then subject to discussion between the Commission and the Italian authorities. The EU banking framework[1] foresees that this exceptional possibility is subject to strict conditions, including that the State support is temporary and cannot be used to offset losses that the bank has incurred or is likely to incur in the future. A bank that is declared as failing or likely to fail by the ECB is not eligible for a precautionary recapitalisation.

Both BPVI and Veneto Banca have a very high amount of non-performing loans (37% compared to Italian average of 18%) and high operating costs. They have been loss-making for a number of years. The 2014 ECB comprehensive assessment identified capital shortfalls, following which the two banks were put under monitoring by the ECB.In 2016, the Atlante fund invested approximately €3.5 billion in BPVI and Veneto Banca. However, the financial position of the two banks deteriorated further in 2017, and the measures were insufficient to overcome the long-lasting structural problems. Furthermore, BPVI and Veneto Banca have not yet completed the process of adjusting their balance sheet to the requirements of the BRRD, which are aimed among other things at limiting the impact of resolution or orderly liquidation on the economy.

As a result of their financial difficulties, over the last two years, the banks suffered from continuous outflow of deposits (between June 2015 and March 2017 the banks lost 44% of their deposit base). To stabilise the liquidity situation, Italy requested liquidity support measures in the form of State guarantees, amounting to about €10 billion, approved by the Commission in January 2017 and April 2017.

**Procedural Background**

Under EU rules, a failing bank should in principle be liquidated under normal insolvency proceedings, except in cases where the SRB considers that there is a public interest in placing the institution under resolution because liquidation under normal insolvency proceedings might jeopardise financial stability, interrupt the provision of critical functions, and affect the protection of depositors (see recital 45 of the BRRD).

If in the context of such national insolvency proceedings, Member States consider public support necessary to mitigate the effects of a bank's market exit, EU State aid rules apply, in particular the 2013 Banking Communication. These rules are temporary crisis rules, based on an exceptional rule of the Treaty on the Functioning of the European Union, Article 107(3)(b).

The non-confidential version of the decision will be made available under the case number SA.45664 in the State Aid Register on the competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.

[1] Within the Banking Union, "EU banking framework" refers to the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR).

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