

DECISION OF THE SINGLE RESOLUTION BOARD

IN ITS EXECUTIVE SESSION

of 23 June 2017

concerning the assessment of the conditions for resolution in respect of

Veneto Banca S.p.A. (the "Institution"),

with the Legal Entity Identifier 549300W9STRUCJ2DLU64,

**addressed to Banca d'Italia in its capacity as National Resolution
Authority**

(SRB/EES/2017/11)

THE SINGLE RESOLUTION BOARD IN ITS EXECUTIVE SESSION,

Having regard to Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010¹ (the "**SRMR**"), and in particular Article 18 thereof, and

Having regard to Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and EU No 648/2012, of the European Parliament and of the Council² (the "**BRRD**") as transposed in Italy under Legislative Decree no. 180 of 16 November 2015 (the "**Italian Transposing Law**"),

WHEREAS:

1. Competence of the Single Resolution Board

- (1) The Institution is a credit institution established in Italy, a participating Member State within the meaning of Article 4(1) of the SRMR, and therefore, falls within the scope of the SRMR in accordance with Article 2(a) of the SRMR.
- (2) Since the Institution is under the direct supervision of the European Central Bank (the "**ECB**") as it is significant, in accordance with Article 6(4) of Regulation (EU)

¹ OJ L 225, 30.7.2014, p.1.

² OJ L 173, 12.6.2014, p.190.

No 1024/2013³ and Article 47(1) of Regulation (EU) No 468/2014⁴, the Single Resolution Board (the "**Board**" or "**SRB**") is responsible for adopting all decisions relating to resolution for the Institution in accordance with Article 7(2)(a) of the SRMR, including the assessment of the conditions for resolution, as referred to in Article 18(1) of the SRMR.

- (3) In accordance with Article 54(1)(b) of the SRMR, this Decision in respect of the Institution is taken by the SRB in its Executive Session, with the participation of the Chair and the four full time members in accordance with Article 53(1) of the SRMR, and the member representing Banca d'Italia (the "**NRA**"), in accordance with Article 53(3) of the SRMR. Moreover, the Croatian resolution authority (Hrvatska Narodna Banka or "**HNB**") was invited to participate as observer, in accordance with Article 53(1)(third subparagraph) of the SRMR. The Commission and the ECB participate in the Executive Session with the status of permanent observers, in accordance with Article 43(3) of the SRMR.

2. The Institution and current developments

2.1 Description of the Institution

- (4) The Institution is the parent undertaking of Gruppo Veneto Banca (the "**Group**"). The Institution operates in the northern and central regions of Italy and is focused on traditional banking services. The Group has the following main subsidiaries established in Italy:
- a) Banca Apulia S.p.A., a regional commercial bank, operating in the South-East of Italy;
 - b) Banca Intermobiliare di Investimento e Gestioni S.p.A., specialised in private banking, wealth management and corporate finance;⁵
 - c) Claris Factor S.p.A.;
 - d) Claris Leasing S.p.A..
- (5) The Group comprises a Croatian subsidiary, Veneto Banka d.d.; an Albanian subsidiary, Veneto Banca sh.a.; and a Moldovian subsidiary, Eximbank d.d.; it also operates through branches in Romania.
- (6) The Group is a commercial banking group with total assets of EUR [...], and with 480 branches and 6,089 employees (yearly average) as of 31 December 2016.
- (7) The Institution plays an important role within the Group. In addition to its commercial presence, the Institution is responsible for the strategic direction, governance and control over the entire Group. Furthermore, the Institution has

³ OJ L 287, 29.10.2013, p. 63.

⁴ OJ L 141, 14.5.2014, p. 1.

⁵ Banca Apulia S.p.A. and Banca Intermobiliare di Investimento e Gestioni S.p.A. are majority owned (above [...]%) by the Institution. [...].

[...], and 324 branches and 4,110 employees (yearly average) as of 31 December 2016.

2.2 Description of insolvency proceedings and of the Resolution Plan

2.2.1 Description of Italian insolvency proceedings

- (8) In Italy, *liquidazione coatta amministrativa* or Compulsory Administrative Liquidation (the "**CAL**") is the ordinary liquidation proceeding applicable to banks and other financial institutions. CAL is governed by Legislative Decree no. 385/1993 (the "**Italian Banking Act**" or "**IBA**") and by specific provisions of the Italian Transposing Law and of the Italian statute governing insolvencies, Royal Decree no. 267/1942.
- (9) A financial institution will be subject to CAL proceedings upon the occurrence of the following requirements: (i) failing or likely to fail status; (ii) the impossibility of adopting alternative measures aimed at preventing the failure in a reasonable timeframe; and (iii) the absence of public interest in resolution.
- (10) CAL is initiated by issuance of a decree (the "**Decree**") of the Italian Ministry of Economy and Finance (either upon proposal of Banca d'Italia, or on a motivated request of the financial institution's management or extraordinary shareholders' meeting, or of the temporary management if the financial institution is under special administration). In practice, the initiation of CAL is coordinated with the withdrawal of the banking licence by the ECB. The first step of the CAL proceedings after issuance of the Decree is the appointment by Banca d'Italia of one or more receivers and of a Supervisory Committee which monitors the asset liquidation process carried out by the receivers. Banca d'Italia has, therefore, a general power of oversight on the proceedings.
- (11) The receivers: (i) replace the former management of the distressed financial institution; (ii) ascertain the financial institution's liabilities; (iii) carry out the liquidation of the assets of the financial institution; (iv) initiate any legal action in respect of possible liabilities of the former management and auditors of the financial institution; and (v) periodically report to Banca d'Italia on the financial institution's accounts and on the liquidation process.
- (12) Following the issuance of the Decree and the appointment of the receivers: (i) no acts of enforcement may be initiated or continued by creditors against the financial institution; (ii) no actions may be taken to perfect any security over the financial institution's assets; and (iii) all payments due by the financial institution are suspended.
- (13) Moreover, unless the continuation of the business on a provisional basis is allowed, agreements not yet performed (or only partially performed) at the time of the appointment of the receivers, are stayed until the time when the receivers

- with the favourable opinion of the Supervisory Committee – decide whether or not to take over (*in lieu* of the distressed financial institution) or terminate the relationship. Specific rules are provided on whether certain contractual relationships are taken over by the receivers or terminated.
- (14) Regarding the treatment and satisfaction of the creditors' claims under CAL, within 30 days from the receivers' appointment, all creditors are formally notified of their claims or of any particular guarantee related to their credits as resulting from the financial institution's certified accounts. After performing the assessment of the claims, the receivers file the statement of liabilities with Banca d'Italia, consisting of a list of the creditors admitted to the CAL proceedings. The statement also identifies the creditors' ranking (secured, unsecured) and the size of their claims.
- (15) The receivers carry out the liquidation process aimed at promptly selling the financial institution's assets in order to maximize the creditors' value in the best interest of all creditors and stakeholders. Transfers may be performed at any stage of CAL, including during the period prior to the filing of the definitive statement of liabilities.
- (16) The receivers may carry out the liquidation process by either selling individual assets or through the sale of aggregates of assets and liabilities. The sale of aggregates of assets and liabilities may include, alternatively: (i) the transfer of assets and liabilities; (ii) the transfer of the entire business or part of the business; (iii) the transfer of assets and/or contractual relationships identifiable in bulk; (iv) the transfer of portions of liabilities, when the conditions for the support by the Italian Deposit Guarantee Scheme ("**DGS**") are not met or the support is insufficient. Such transfers can take place following the positive opinion of the Supervisory Committee and under the authorization of Banca d'Italia and in any case without prejudice to the *pari passu* treatment and the hierarchy of claims.
- (17) The receivers are entitled to exercise all the necessary powers to realize and liquidate the assets of the distressed financial institution. However, certain specific liquidation activities (as set forth by Article 90(2) of the IBA) are subject to the favourable binding opinion of the Supervisory Committee and to Banca d'Italia's prior authorisation.
- (18) The receivers will also proceed with the restitutions of assets and financial instruments to their legitimate holders, and with the distributions to creditors according to the order and ranking set forth by law.

2.2.2 Description of the Resolution Plan for the Group

- (19) On 5 December 2016, the SRB in its Executive Session adopted the 2016 version of the Resolution Plan for the Group. On the basis of information as of the end of 2015, the SRB assessed that the liquidation of the Group under normal insolvency

proceedings would not be credible.⁶ This assessment was based mainly on the potential adverse impact of liquidation of the Group on market confidence and the risk of contagion to other credit institutions. It was indicated in the 2016 Resolution Plan that [...].⁷ [...].⁸

(20) In accordance with Article 25 of the Commission Delegated Regulation (EU) 2016/1075⁹, the SRB determined that the most appropriate resolution strategy for the Group would be [...].

(21) [...]. The sale of business tool was identified as a variant strategy [...].

3. The Institution's difficulties

(22) As described in the "failing or likely to fail" (the "**FOLTF**") assessment received from the ECB on 23 June 2017, the Institution has experienced material capital depletions [...]. Furthermore, [...], the Institution has experienced a substantial deterioration of its liquidity position.

(23) [...], the Institution reported a breach of capital requirements and was requested to submit a capital plan to the ECB. The ECB conducted an on-site inspection (May - August 2015) which resulted in a derecognition of EUR 296.2 million of "financed capital" from the Common Equity Tier 1 capital (the "**CET 1**").

(24) In the fourth quarter of 2015, the Institution submitted the requested capital plan to the ECB, providing for an initial public offering (the "**IPO**") of EUR 1 billion. At the same time, the general shareholders' meeting approved a change of legal status for the Institution and the listing of the Institution's shares at Mercato Italiano telematico. In January 2016, the Institution transformed from a cooperative (*banca popolare*) into a joint-stock company. Subsequently, the Institution launched the IPO which was unsuccessful. This triggered the underwriting agreements by which Atlante Fund ("**Atlante**")¹⁰ subscribed [...] (thereby becoming the main shareholder with 97.64% of the Institution's share capital).

(25) Between December 2015 and September 2016, the Institution faced [...] liquidity outflows from customers, [...].

⁶ See, however, Section 5 of the Recitals.

⁷ [...].

⁸ [...].

⁹ OJ L 184, 8.7.2016, p.1.

¹⁰ Atlante Fund (in Italian 'Fondo Atlante') is a closed-end investment fund regulated by Italian law reserved for professional investors. Atlante's investors are banks, insurance companies, banking foundations and the Cassa Depositi e Prestiti. Individual investment cannot be greater than 20% of the overall size. Atlante's administrator is Quaestio Capital Management SGR S.p.A..

- (26) During the second half of 2016, the Institution recorded a sharp decline in core revenues, increased needs for provisioning on loans, increased needs for provisioning due to increased lawsuits, a significant deterioration in the asset quality and [...]. This resulted in a breach of the Institution's [...] CET 1 requirement [...].
- (27) Atlante injected additional own funds for an amount of EUR 331.6 million in December 2016 and an amount of EUR 296.3 million in early January 2017 (total amount of EUR 628 million).
- (28) [...]. On 23 December 2016 the Italian Government had adopted Law decree No. 237/2016 of 23 December 2016 (which was later converted into law with Law no. 15 of 17 February 2017), to provide stressed banks with precautionary recapitalisation measures and guarantees on newly issued liabilities (the "**GGBs**"). On the same date, the Institution requested a government guarantee on liabilities to be newly issued for an amount of EUR 3.5 billion.
- (29) In December 2016, the ECB [...] called for a series of measures on capital and liquidity in order to preserve the Institution's continued operation and profitability. [...].
- (30) In response [...], the Institution submitted to the ECB a business plan (the "**Business Plan**"), envisaging a merger of the Institution with Banca Popolare di Vicenza S.p.A. (the "**Merger**"). The Business Plan showed the need of a EUR [...] capital injection for the merged entity. [...].
- (31) In February 2017, the Italian State approved the Institution's request for a guarantee on newly issued liabilities for an amount of EUR 3.5 billion. This led to a temporary improvement of the Institution's liquidity position.
- (32) At the beginning of March 2017, the ECB renewed its request for an individual capital conservation and capital raising plan for the Institution, [...]. The ECB requested the Institution to describe the concrete measures and the timeline envisaged to address the capital needs.
- (33) [...].

- (34) [...].
- (35) On 17 March 2017, the Institution notified the ECB of its intention to formally apply for precautionary recapitalisation in accordance with Article 18(4)(d)(iii) of the SRMR, given the uncertainty around the availability of private capital strengthening measures.
- (36) On 24 March 2017, DBRS downgraded the Institution's Issuer rating and Long term Debt and Deposits Rating to 'B' from 'BB' to reflect the additional risks due to the increased uncertainty over the Institution's capital position.
- (37) [...].
- (38) In the meantime, in March 2017, the liquidity position of the Institution had deteriorated sharply, [...].
- (39) On 23 March 2017, the Institution requested the Italian State to issue additional GGBs for an amount of EUR 1.4 billion. [...]. This request was approved by the Italian State on 25 May 2017.
- (40) On 3 April 2017, the Board of Directors approved the financial statements for 2016 highlighting several negative indicators: (i) a loss of EUR 1.5 billion; and (ii) Gross NPLs of EUR 9.0 billion (up 20% year-on-year), with EUR 4.5 billion of these NPLs regarded as bad loans (up 30% year-on-year).
- (41) [...], the Institution submitted a new business plan (the "**Business Plan II**") to the ECB and to the European Commission in the context of the request for precautionary recapitalisation.
- (42) [...].
- (43) [...], the ECB concluded its assessment of the Business Plan II. In particular, the ECB has concluded that the effective and timely implementation of a plan to recapitalise the Institution and Banca Popolare di Vicenza S.p.A., merge the two banks and create the conditions for a new viable business model for the merged entity, is implausible. [...].
- (44) [...].
- 4. Procedure**
- (45) On 21 June 2017, the ECB communicated to the SRB its draft FOLTF assessment of the Institution, for the purpose of consulting the SRB on this matter in accordance with Article 18(1)(second subparagraph) of the SRMR.

- (46) On 23 June 2017, the ECB has reached the conclusion that the Institution is deemed to be failing in the near future, as referred to in Article 18(1)(a) and 18(4)(a) SRMR. On the same date, the ECB communicated its final assessment to the SRB.
- (47) On 23 June 2017, the SRB adopted this Decision.
- (48) Prior to adopting this Decision, the SRB has closely cooperated with HNB. Furthermore, a representative of HNB has participated as observer to the SRB's Executive Session for the adoption of this Decision.

5. Deviation from the resolution plan

- (49) In the 2016 Resolution Plan, it was noted that [...]. For the reasons set out in Article 4.2.1 of this Decision, the SRB concludes that the Institution does not carry out critical functions.
- (50) Furthermore, in the 2016 Resolution Plan, it was assessed that the liquidation of the Group could have an adverse impact on market confidence and give rise to contagion to other credit institutions. However, it has to be noted that the 2016 Resolution Plan was based mainly on data as of the end of 2015. Since then, significant developments have taken place (see Section 3 above), which have to be taken into account when assessing the strategy to be followed in case of failure of the Institution.
- a) The Institution's score for systemic relevance was [...] basis points (the "**bps**") in 2015 and [...] bps in 2016.¹¹
 - b) The Institution's amount of total assets decreased by 22%, [...] as of 31 March 2017. Therefore, it does not meet the size threshold to qualify as significant institution according to Article 6(4) of the SSMR.
 - c) In the course of 20 months, the Institution's commercial funding has fallen by 40%, [...].
 - d) The market share of the Group in the national market for deposit-taking declined to 0.91% at the end of 2016.
 - e) Since the beginning of 2016, the Institution faced significant deposit outflows. However, during the same period, deposit volumes in Italy remained relatively stable. Consequently, it can be concluded that the Group's deposit outflows over this period were absorbed by other credit institutions in Italy.
 - f) In spite of the recent surge in the Institution's subordinated and senior bond yields, general market trends (both at the national and European level) remain mild, demonstrating that the Institution's bond yields are more and more disconnected from the rest of the Italian and European market.

¹¹ The threshold to qualify as Other Systemically Important Institution (the "**O-SII**") is 350 bps.

On this basis, it can be concluded that the systemic relevance of the Institution has declined significantly since the end of 2015. As specified in Article 4 of this Decision, the grounds for concluding in the 2016 Resolution Plan that resolution action would be necessary (i.e. financial stability and critical functions), no longer apply.

- (51) In order to analyse whether there is a need to take resolution action based on the resolution objectives of protecting depositors and investors and protecting client assets and client funds, a comparison is made between the hypothetical resolution action and CAL proceedings. [...]. Therefore, given the current circumstances, the variant strategy indicated in the 2016 Resolution Plan, i.e. the application of the sale of business tool, would meet the resolution objectives more effectively as it could ensure the integration of a confined portfolio (i.e. mainly covered and preferred deposits, balanced by appropriate assets) into another entity and thereby, maintain the viability of the transferred business. Since normal insolvency proceedings (i.e. CAL) allow for the transfer to a purchaser of the same portfolio which could have been transferred in case of resolution action, it can be concluded that CAL proceedings could meet these two resolution objectives to the same extent.

HAS DECIDED AS FOLLOWS:

Article 1

Determination not to adopt a resolution scheme

The SRB concludes that the conditions of Article 18(1)(a) and (b) of the SRMR are met, whereas the condition of Article 18(1)(c) of the SRMR is not met. Therefore, the SRB decides not to place Veneto Banca S.p.A. (the “**Institution**”) under resolution.

Article 2

Failing or Likely to Fail

- 2.1 In accordance with Article 18(1)(a) and (4)(a) of the SRMR and after consulting the SRB, the ECB assessed that the Institution is deemed to be failing in the near future, and notified the SRB on 23 June 2017. The ECB assessed that there is material evidence to conclude that the Institution infringes the requirements for continuing authorisation in a way that would justify the withdrawal of the authorisation by the competent authority. In particular:
- a) The Institution is currently in breach of [...] requirements for [...] capital. The breaches of [...] requirements have been persisting [...], despite measures taken by the Institution to address them.
 - b) [...]¹² [...].
 - c) The Institution is not in a position to generate capital or raise the capital needed, [...].
- 2.2 Following the ECB’s failing or likely to fail assessment, the SRB concludes that the condition specified in Article 18(1)(a) of the SRMR is satisfied in respect of the Institution.

Article 3

Alternative Measures

- 3.1 Following close cooperation with the ECB, the SRB concludes that there are no alternative measures, which could prevent the failure of the Institution within a reasonable timeframe and, therefore, the condition specified in Article 18(1)(b) of the SRMR is satisfied in respect of the Institution. In order to reach this conclusion, the SRB has taken into account, in particular, the ECB’s failing or likely to fail assessment.
- 3.2 There is no reasonable prospect that any alternative private sector measures could prevent the failure of the Institution. The lack of such measures can be inferred, in particular, from the following elements:
- a) [...];
 - b) [...];

¹² [...].

- c) [...];
- d) [...].

- 3.3 There is no reasonable prospect that any supervisory action, including early intervention measures could prevent the failure of the Institution. In its FOLTF assessment, the ECB has confirmed that there are no other effective supervisory or early intervention measures available, which would restore the compliance [...].
- 3.4 The exercise of the power to write down or convert the Institution's capital instruments in accordance with Article 21 of the SRMR independently of any resolution action (the "**WDCI Measure**") would not prevent the failure of the Institution. [...].

Article 4 Public Interest

- 4.1 Having considered all of the matters outlined in the following paragraphs and having due regard to the resolution objectives specified in Article 14(2) of the SRMR to the nature and circumstances of the current case, in accordance with Articles 14(3) of the SRMR, the SRB concludes that resolution action in respect of the Institution is not necessary in the public interest within the meaning of Article 18(1)(c) and (5) of the SRMR.

For the purpose of this determination, winding-up of the institution under normal insolvency proceedings refers to the CAL proceedings.

Moreover, for the purposes of paragraphs 4.2.4 and 4.2.5 of this Article, resolution action refers to the application of the sale of business tool, in the form of transferring assets, rights and liabilities of the Institution to a purchaser, in accordance with Article 24 of the SRMR and Articles 38 and 39 of the BRRD, as transposed in the Italian Transposing Law. In such case, the perimeter to be transferred would consist mainly of the covered and preferred deposits balanced by appropriate assets.

- 4.2 **Analysis in the light of the resolution objectives under the current circumstances**

4.2.1 Ensuring the continuity of critical functions: Article 14(2)(a) of the SRMR

Based on the below analysis, the Institution does not provide critical functions, within the meaning of Article 2(1)(35) of the BRRD and in accordance with the criteria set out in Article 6 of the Commission Delegated Regulation 2016/778.¹³

¹³ OJ L 131, 20.5.2016, p. 41.

In particular, the Institution does not perform activities, services or operations the discontinuance of which would be likely to lead to: (i) the disruption of services that are essential to the real economy of Italy and / or (ii) the disruption of financial stability in Italy.

In particular, the functions identified by the Institution as critical, i.e. deposit-taking, lending activities and payment services, are provided to a limited number of third parties and can be replaced in an acceptable manner and within a reasonable timeframe by such parties.

4.2.1.1 Deposit-taking

Deposit-taking (i.e. the acceptance of deposits from clients other than financial institutions) is not considered to constitute a critical function given the following:

- a) A sudden disruption of this function would not be expected to have a material negative impact on third parties, to undermine the general confidence of market participants nor to give rise to contagion. This conclusion is mainly based on:
 - i. the Institution's deteriorating market position, partly resulting from reputational damages following mis-selling allegations. This led to low and continuously decreasing market shares of the Institution and resulted in a significant decline of the Institution's systemic relevance. In particular, the market share of the Group in the national market for deposit-taking declined from 1.24% at the end of 2014 to 0.91% at the end of 2016.¹⁴ The volume of deposits of the Group declined from EUR 17.04 billion at the end of 2014 to EUR 9.75 billion on 31 March 2017. As of end of 2016, the Institution provided deposit-taking services to 332,210 households (out of 25.4 million of households in Italy), to 14,950 SMEs (out of 4.4 million of SMEs in Italy) and to 15,800 non-SMEs.¹⁵
 - ii. the complete absorption by the market of the significant deposit outflows from the Institution over the past years, with an acceleration in recent months, which indicates that the failure of the Institution would likely not have a material adverse impact on financial markets and on general confidence of market participants. In particular, during the period from 2014 to 2016, deposit volumes in Italy remained relatively stable (+0.7 %, with a slightly higher growth rate in the Veneto region, i.e. +1.5 %). Consequently, it can be concluded that the Group's deposit outflows of about EUR 7.3

¹⁴ [...].

¹⁵ [...].

billion over the period between end of 2014 and 31 March 2017 were absorbed by other credit institutions in Italy.

- b) The function is considered to be substitutable as it can be replaced in an acceptable manner and within a reasonable time frame thereby limiting potential impact on the real economy and the financial markets. In particular, there is a large number of active credit institutions in the regions of Veneto and Puglia¹⁶ in which the Institution's deposit-taking activity is concentrated (37 and 28 respectively), and the transfer of this activity from the Institution is technically possible within a reasonable time frame.

4.2.1.2 Lending

Lending (i.e. the provision of funds in the form of a wide range of products and associated services, e.g. loans, short term credit, factoring) is not considered to constitute a critical function given the following:

- a) A sudden disruption of this function would not be expected to have a material negative impact on third parties, to undermine the general confidence of market participants nor to give rise to contagion. This conclusion is mainly based on the diminishing systemic relevance of the Institution, which is demonstrated by the low and continuously decreasing market shares of the Institution. In particular, the market share of the Group in the national market for lending has declined from 1.32% at the end of 2014 to 1.15% at the end of 2016.¹⁷ As of end of 2016, the Institution provided lending services to 98,738 households (out of 25.4 million of households in Italy), to 42,387 SMEs (out of 4.4 million of SMEs in Italy) and to 1,276 non-SMEs.¹⁸ It should be noted, in this regard, that the outstanding loans are relatively old, as the Institution has only limited capacity for granting new loans due to capital constraints. Therefore, under current conditions, potential clients would already need to find new loans from other providers in the market. Due to persisting capital constraints, the Institution also presents a limited potential for lending growth on a forward-looking basis.
- b) The function is considered to be substitutable as it can be replaced in an acceptable manner and within a reasonable time frame, thereby limiting potential impact on the real economy and financial markets. In particular, there are a high number of competitors¹⁹ with proven experience in lending

¹⁶ [...].

¹⁷ [...].

¹⁸ [...].

¹⁹ The number of active credit institutions in the core markets of the Institution range from 25 in Marche to 37 in Veneto.

activities and subject to prudential supervision in the relevant regions. Moreover, the simple - commercial banking - business model, with standardised loans and risk management procedures, in principle, facilitates the substitution of those lending activities by other providers.

4.2.1.3 Payments and cash services

Payment and cash services provided by the Institution are closely related to the economic functions “deposit-taking” and “lending”. Due to the specific circumstances of the case, payment and cash services are not considered to constitute a critical function given the following:

- a) A sudden disruption of this function would not be expected to have a material negative impact on third parties, to undermine the general confidence of market participants nor to give rise to contagion. This conclusion is mainly based on:
 - i. market share developments for the deposit-taking function can be regarded as a proxy for the declining relevance of the Institution with regard to payment and cash services. The high and accelerating loss of clients is providing additional evidence. Up to year end 2016, the Group witnessed a reduction of [...] % in current accounts and [...] % in securities accounts since December 2014, and lost [...] % of clients since December 2015, most of which at the level of the Institution. The decrease accelerated in 2016 and, in particular, in the second half of 2016. Over the period between January 2015 and December 2016, [...] % of the decrease in current accounts and [...] % of the decrease in securities accounts occurred after June 2016. Over the period between January 2016 and December 2016, [...] % of the client base reduction took place in the second half of the year. There is no indication that this trend has reversed in 2017.
 - ii. the Institution does not provide indirect access to market infrastructures to institutions that are not part of the Group and is not an essential provider of correspondent banking or similar services.
- b) The function is considered to be substitutable as it can be replaced in an acceptable manner and within a reasonable time frame thereby limiting potential impacts on the real economy and the financial

markets. In particular, the transfer of accounts and related services to a new provider is technically possible within a reasonable timeframe.²⁰

**4.2.2. Avoiding significant adverse effects on financial stability:
Article 14(2)(b) of the SRMR**

The failure of the Institution, on a standalone basis, is not likely to result in significant adverse effects on financial stability in Italy. This is inferred from the following elements:

- a) The Institution has been classified by the ECB as a Significant Institution solely on the basis of its size. However, due to rapidly declining business volumes as of December 2016, the total assets of the Group (EUR 27.9 billion) and of the Institution (EUR 23.4 billion), accounting for 1.1% of the total assets of the banking sector in Italy, were already well below the size threshold (EUR 30 billion). This trend has continued in 2017 with a further reduction of total assets by around EUR [...] in the first quarter of 2017.²¹
- b) The Institution has not been classified as systemically important²² by Banca d'Italia in 2015 or 2016. In 2015, the Institution scored [...] bps in the overall O-SII score, which is well below the systemic relevance threshold of 350 bps in 2015. In 2016, the overall O-SII score of the Institution further declined to [...] bps.²³
- c) Considering the relatively low financial and operational interconnections with other financial institutions, an adverse impact (contagion) on other financial institutions and considerable spill-over effects to other intermediaries are regarded highly unlikely based on the following elements:
 - i. Any material direct contagion to other financial sector institutions is considered unlikely, taking into account the minor importance of the Institution for the Italian funding market, the diversified funding sources and the high portion of secured funding, the low and continued declining systemic relevance of the Institution, and the low score for interconnectedness. The conclusion that any material

²⁰ Moreover, it has to be noted that there are 42,023 ATMs operated by Italian banks (compared to the 574 ATMs of the Group) and 12,576 Post Office branches (Banca d'Italia Eurosystem, Statistics, Payment System, 22 May 2017) which can ensure continued access for clients with operating accounts with other banks.

²¹ [...].

²² The Institution is not a Global Systemically Important Bank ("G-SIB"), a Global Systemically Important Institution ("G-SII"), nor an Other Systemically Important Institution ("O-SII").

²³ The score for size declined from [...] bps to [...] bps, the score for importance declined from [...] bps to [...] bps, the score for complexity declined from [...] bps to [...] bps and the score for interconnectedness slightly grew from [...] bps to [...] bps.

- direct contagion to other financial sector institutions is unlikely, is supported mainly by the following elements: (i) In case of insolvency of the Institution, the potential loss to be borne by the Italian banking system stemming from bond holdings and interbank credit ranges between EUR [...] and EUR [...]. This would affect [...] counterparties in total, i.e. an average loss of between EUR [...] and EUR [...] per counterparty; (ii) [...].
- ii. The Institution's entry into CAL would not threaten the continued operation of essential payment or clearing systems, or other Financial Market Infrastructures (the "**FMI**s"), in Italy or any other Member States. The FMIs in which the Institution participates provide only liquidity or credit against collateral or do not run credit or liquidity risks deriving from their participants' financial situation. [...].
 - iii. Indirect contagion effects stemming from the Institution's failure are unlikely. This can also be supported by the fact that, in spite of the recent surge in the Institution's subordinated and senior bond yields, general market trends, both at the national and European levels, remain mild. The Institution's bonds' yields seem more and more disconnected from the rest of the Italian market, and, more broadly from the European market.²⁴
- d) While a potential adverse impact on retail customers and SMEs in certain regions, in which the Institution has a stronger presence, cannot be excluded, there would be no significant impact at national level taking into account the following:
- i. Market confidence is not likely to be affected given the already high visibility of the Institution's difficulties, among others resulting from comprehensive press coverage and reputational issues (mis-selling allegations). The constant erosion of the (retail) funding base of the Institution provides evidence for the lack of confidence in the Institution specifically.
 - ii. The decline in the Institution's systemic relevance over the past years, driven by continued deleveraging and evidenced by a constant loss in market shares (including in deposit-taking and lending services), and the Institution's limited capacity to provide further funding to the real economy due to capital constraints support the finding that sufficient funding to the real economy can be provided by other institutions.

²⁴ In particular, despite the increased pressure on the Institution's bond yields during the recent period, Italian bank yields stabilised in the past few months but at a historically high level.

Any potential adverse effects resulting from the simultaneous failure of the Institution and of Banca Popolare di Vicenza S.p.A. (the “**Banks**”) are also considered below, in view of their common geographical footprint, their comparable condition and weaknesses and their plans to merge and continue as a single institution.

If the Banks were assumed to be perceived by the market as a single entity, the latter would result in Italy’s eighth largest bank in terms of total assets. Such pro-forma entity would nevertheless score well below the systemic relevance threshold of 350 bps (scores would be [...] bps in 2015 and [...] bps in 2016). This entity would have particularly low scores for interconnectedness and complexity.

A simultaneous failure of the Banks might have an impact on financial stability. However, such impact would likely not be significant, mainly in light of the following factors:

- a) There is a low contagion risk within the financial system due to the low interconnectedness of the Banks with other financial institutions. In particular, there is no other Italian bank with an exposure on any of the two Banks higher than [...] % of eligible capital according to the Large Exposures reporting.
- b) The Banks have a highly diversified funding structure, mostly on a secured basis, and they are of minor importance for the Italian funding market. Moreover, the Banks have been increasingly relying on State-supported funding (e.g. GGBs) and ECB funding.
- c) Impact on the real economy is expected to be limited:
 - i. On the basis of information as of 31 December 2016, the combined national market share for lending for the Banks would be 2.55% and the combined national market share for deposit-taking would be 1.81%. It should be noted that combined market shares are likely to be overestimated due to overlapping business and branch networks.
 - ii. The role of the Banks, both individually and combined, for credit supply has been diminishing due to the capital constraints resulting from insufficient operating profitability and low asset quality. An analysis by the Commission²⁵ suggests a strong negative correlation between low average asset quality and lending to the private sector. The Banks have among the highest NPL ratios in the Italian banking sector. Therefore, under current conditions, new loans already need to be found from other providers.
 - iii. Despite higher market shares at the regional level, it has to be noted that the market share of the Banks, even in the core region of Veneto, has deteriorated without having a measurable impact as evidenced by

²⁵ European Commission, Staff Working Document, Country Report Italy 2017, including an In-Depth Review on the prevention and correction of macroeconomic imbalances, SWD(2017) 77 final, p.36.

key economic indicators. Furthermore, substitutability of the deposit and lending functions in the Veneto region is expected to be high due to the large number of credit institutions active in the region.

- iv. Market perception of the Banks has deteriorated significantly. The loss of confidence, predominantly driven by a persistent uncertainty related to the adequacy of loan loss provisions and capital buffers, is reflected in a large drop in prices for outstanding debt instruments. In addition, the difficulty in finding a market solution to address capital shortfalls as evidenced by the failed private recapitalisation plans and the alleged widespread mis-selling of bank bonds to retail customers have contributed to the severe loss of confidence resulting already in significant reductions of holdings in bank bonds and massive deposit withdrawals.

4.2.2 Protecting public funds by minimising reliance on extraordinary public financial support: Article 14(2)(c) of the SRMR

In case of CAL proceedings, any pay-out by the DGS to the covered depositors would not qualify as "extraordinary public financial support"²⁶ and therefore, is not taken into account when comparing insolvency with resolution.

The IBA provides for the transposition of Article 11(6) of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (the "**DGS Directive**") and allows the DGS to finance the transfer of assets and liabilities of a credit institution to a purchaser.

If any DGS funds are used to assist in the restructuring of credit institutions, including to finance the transfer of assets and liabilities to a purchaser in case of insolvency, these funds could qualify as State aid and therefore, as extraordinary public financial support. It should be noted that any such extraordinary public financial support can be provided only if the strict conditions of the State aid rules are met, which is assessed by the Commission.

4.2.3 Protecting depositors covered by Directive 2014/49/EU and investors covered by Directive 97/9/EC: Article 14(2)(d) of the SRMR

4.2.3.1 Protecting depositors covered by Directive 2014/49/EU

With regard to the protection of covered deposits, the aggregate amount of the Institution's covered deposits as of 31 March 2017 was EUR [...], representing

²⁶ See point 63 of the Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis, OJ C 216, 30.7.2013, p. 1.

[...] % of covered deposits in Italy. In case of resolution action, i.e. in case of application of the sale of business tool, the covered deposits would be transferred to the purchaser and therefore, would be protected. Given that the CAL proceedings provide for the possibility to transfer assets and liabilities (including deposits), CAL proceedings could achieve the protection of covered deposits in a relatively short timeframe and therefore, could be considered to achieve this resolution objective to the same extent as resolution.

Even in the case that the possibility to transfer the deposits to another purchaser is not used, the full transposition of the DGS Directive into national law enables the DGS²⁷ to reimburse depositors (up to the coverage level of EUR 100,000 for each depositor) within 7 working days from the date of issuance of the Decree to initiate CAL proceedings.

Therefore, CAL proceedings can achieve the resolution objective set out in Article 14(2)(d) of the SRMR to the same extent as resolution.

4.2.3.2 Protecting investors covered by Directive 97/9/EC

Directive 97/9/EC (the Investor Compensation Schemes Directive, the "**ICS Directive**") has been fully transposed into Italian law. In more detail, under Italian law, investor-compensation schemes have been set up by the Fondo Nazionale di Garanzia or National Guarantee Fund (the "**Fund**") pursuant to Article 15 of Law no. 1 of 2 January 1991. These compensation schemes aim at compensating investors who entrusted money or financial instruments to an investment firm or credit institution that has been: (i) subject to insolvency proceedings; (ii) unable to return credits or financial instruments belonging to the same investor, as resulting from the statement of liabilities of the insolvent entity, as definitively assessed by the competent bodies of the proceedings. In such cases, the Fund grants to each investor a maximum compensation amount of EUR 20,000.

In case of resolution action, i.e. in case of application of the sale of business tool, the above investors could be protected by way of the relevant monies and financial instruments being transferred to the purchaser. Given that the CAL proceedings provide for the possibility to transfer assets and liabilities, CAL proceedings could achieve the protection of investors covered by the ICS Directive and therefore, could be considered to achieve this resolution objective to the same extent as resolution.

²⁷ The relevant deposit guarantee scheme of Italy is the Fondo Interbancario di Tutela dei Depositi (the "**FITD**").

However, in case of application of the sale of business tool, the relevant legal framework does not require the resolution authority to transfer the relevant monies and financial instruments to the purchaser. Taking into account that a potential purchaser would most likely have no interest in acquiring such monies and financial instruments, the relevant investors could be left behind in the residual entity under insolvency proceedings. In that case, they would be indemnified in the same manner as in case of CAL proceedings (in the case where the relevant monies and financial instruments are not transferred)²⁸.

Therefore, CAL proceedings and resolution action can protect investors covered by the ICS Directive essentially in the same manner.

4.2.4 Protecting client funds and client assets: Article 14(2)(e) of the SRMR

Under the Italian financial law (Legislative Decree 58/1998), financial instruments and money belonging to clients must be kept separate from the credit institution's own assets as well as from the assets of other clients. The creditors of the credit institutions cannot claim the financial instruments and money belonging to the clients, and vice versa.

In addition, according to the same law, financial instruments belonging to customers may not be used by financial institutions for their own account. The bank is not a broker-dealer, which limits the use of rehypothecation. This particular risk to client assets from insolvency can thus be excluded.

In case of resolution action, i.e. in case of application of the sale of business tool, the above client funds and client assets could be protected by being transferred to the purchaser. Given that the CAL proceedings provide for the possibility to transfer assets and liabilities, the CAL proceedings could achieve their protection and therefore, could be considered to achieve this resolution objective to the same extent as resolution.

In addition, should the resolution authority not transfer the relevant client assets and client funds to the purchaser, and leave them behind in the residual entity under insolvency proceedings, they would enjoy the same protection as in case of CAL proceedings (in the case where the relevant assets and funds are not transferred).

²⁸ Pursuant to the Operational Regulation of the Fund, the Fund may pay investors after the issuance of the Decree opening the CAL proceedings. Investors must file a specific application with the Fund that includes the amount of the claims admitted to the statement of liabilities together with the relevant documentation, which must be received by the Fund within 180 days from the relevant definitive admission of the claim under the CAL. The Fund shall thereafter pay the claims to the investors as soon as possible and, at the latest, within 90 days from the ultimate deadlines set out by the law for the filing of the relevant application.

Furthermore, under Article 91(2) of the IBA, in the context of the CAL proceedings, financial instruments belonging to clients are, in principle,²⁹ included in a distinct section of the “statement of liabilities” drawn up by the receiver, thereby separated from the claims of other creditors. The receiver is under the obligation to manage financial instruments with a view to minimising the risks. The assets and financial instruments of customers are returned to customers only at the end of the CAL process. However, according to Article 91(4) of the IBA, receivers are entitled to carry out early returns (in whole or in part, also in favour of certain customers), with the prior authorisation of Banca d’Italia and the favourable binding opinion of the Supervisory Committee.

Given the above, CAL proceedings can protect client funds and client assets to the same extent as resolution action.

- 4.3 Pursuant to Article 6(3) and (5) of the SRMR, taking into account that this Decision concerns an Institution which has a subsidiary in Croatia, the interests of Croatia have been taken into account. [...].

Article 5

Effective date and language

5.1 This Decision shall enter into force on 23 June 2017 at 18:15 CET.

5.2 The present Decision is adopted in English in line with Article 4 of the Cooperation Framework.³⁰

Article 6

Communication to the Addressee

This Decision is addressed to Banca d’Italia and shall be communicated to Banca d’Italia without delay in order to take all the necessary measures for its implementation.

²⁹ If the client assets are not segregated from the credit institution’s own assets, these clients compete with the credit institution’s unsecured creditors (for the part of their rights which has not been satisfied). If the client assets are not segregated from the assets belonging to other clients, the assets are distributed pro rata among the clients.

³⁰ Decision of the Single Resolution Board in its Plenary Session of 28 June 2016, SRB/PS/2016/07.



Non-confidential version

Done in Brussels, on 23 June 2017

For the Executive Session of the Board

*The Chair
Elke König*