



Information on resolution of Banca Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Chieti, and Cassa di Risparmio di Ferrara crises

The Italian Government and the Bank of Italy, in close cooperation and agreement, each within its own sphere of competence and responsibility, have acted to resolve the situation of crisis at four banks under special administration: Banca Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio di Ferrara, and Cassa di Risparmio di Chieti. These are small or medium-sized banks whose total market share comes to about 1 per cent of system-wide deposits.

The solution adopted guarantees the business continuity and financial recovery of the four banks, in the interests of the local economies in which they are located. It fully protects the savings that households and firms hold in the form of deposits, current accounts and ordinary bonds; it preserves the jobs of all the banks' employees; and it requires no public funds.

The banks' cumulative losses, valued in a very conservative way, are absorbed first of all by the riskiest investment instruments: shares and subordinated bonds (these too are exposed to enterprise risk). The involvement of shareholders and subordinated bondholders is an express prerequisite for the orderly solution of banking crises under the European Union's Bank Recovery and Resolution Directive (BRRD), which was transposed into Italian law by Legislative Decree 180/2015 of 16 November.

The law makes the Bank of Italy the resolution authority for the banking system.

The solution, which is compliant with the European rules on State aid, consists of the following elements.

1) For each of the four banks, the “good” and “bad” portions of the balance sheet are separated.

2) The “good” part of each – the good bank or bridge bank – are assigned all the balance-sheet assets except loans classed as “bad debts” (i.e., those whose recovery is most doubtful); on the liability side it has deposits, current accounts and ordinary bonds. The capital of the good (bridge) bank is reconstituted by the Resolution Fund in the amount of approximately 9 per cent of total risk-weighted assets. The Resolution Fund, an institution provided for under both European and Italian law, is administered by the Bank of Italy’s Resolution Unit. It is financed by contributions from the entire Italian banking system. The good bank is provisionally managed, under the supervision of the Resolution Unit, by specially designated administrators. In all four cases the President is Mr. Roberto Nicastro, former Director General of Unicredit. The administrators undertake the express commitment to sell the good (bridge) bank rapidly to the highest bidder by transparent, market-based procedures, and reimburse the Resolution Fund with the proceeds. The data for each of the four good banks, and the aggregate data, are set out in the annexed Table.

3) A “bad bank” (not a licensed bank, in spite of its name) takes possession of all the bad debts remaining after the absorption of the losses by writing off shares and subordinated bonds and, for any excess, drawing on the Resolution Fund. The Fund also supplies the bad bank with the requisite capital endowment. The bad loans, written down to €1.5 billion from an original balance-sheet value of €8.5 billion, will either be sold to companies

specializing in the recovery of non-performing loans or managed directly to recoup the greatest possible amount; the proceeds will be returned to the Resolution Fund. For the sake of simplicity a single bad bank is constituted to take on the bad loan assets of all four banks. For the data, see the Table.

4) The State, and hence taxpayers, sustain absolutely no cost in the process. The entire cost of the salvage operation is borne first of all by the four banks' shares and subordinated bonds, but in the final analysis it will be defrayed chiefly by the Italian banking system as a whole through its ordinary and extraordinary contributions to the Resolution Fund.

5) The Resolution Fund's financial outlays for the four banks are subdivided as follows: about €1.7 billion to cover the losses of the original banks (of which a small part may prove to be recoverable); €1.8 billion to recapitalize the good banks (recoverable with their sale); and €140 million to endow the bad bank with the minimum capital needed for operations. This makes a total of some €3.6 billion.

6) The liquidity required by the Resolution Fund in order to become operational immediately has been advanced by three major banks (Banca Intesa Sanpaolo, Unicredit and UBI Banca) at market rates and with a maximum maturity of 18 months.

7) The original four banks become residual boxes where the losses and their absorption instruments are confined; they are immediately liquidated. The good banks (bridge banks) retain the old names but preceded by a "New". They will continue the activity of the old ones having been cleaned and recapitalized. The bad bank will cease to exist as soon as it will have sold or recovered the bad loans it contains.

This is the solution compliant with the State aid rules that emerged after other proposals were assessed as not compliant during the discussions with the EU Commission. Finally the Italian authorities selected this solution that is

effective immediately and avoids prolonging the paralysis of the four banks, in order to resolve the crisis.

Rome, 22 November 2015

Bridge banks -- Aggregate*(billions of euros, rounded)*

Assets		Liabilities	
Loans, investments, etc. (no "bad debts")	24.5	27.8	Deposits, current accounts, bonds and other funding
Claims on "bad bank" (<i>guaranteed by Resolution Fund</i>)	1.5	1.8	Capital (<i>underwritten by Resolution Fund</i>)
Cash	3.6		
Total	29.6	29.6	Total

Note: based on banks' accounts at September 2015 and on provisional evaluations by the National Resolution Authority

Nuova Banca delle Marche*(billions of euros, rounded)*

Assets		Liabilities	
Loans, investments, etc. (no "bad debts")	12.4	14.3	Deposits, current accounts, bonds and other funding
Claims on "bad bank" (<i>guaranteed by Resolution Fund</i>)	0.9	1.0	Capital (<i>underwritten by Resolution Fund</i>)
Cash	2.0		
Total	15.3	15.3	Total

Note: based on banks' accounts at September 2015 and on provisional evaluations by the National Resolution Authority

Nuova Banca dell'Etruria e del Lazio*(billions of euros, rounded)*

Assets		Liabilities	
Loans, investments, etc. (no "bad debts")	6.1	6.7	Deposits, current accounts, bonds and other funding
Claims on "bad bank" (<i>guaranteed by Resolution Fund</i>)	0.3	0.4	Capital (<i>underwritten by Resolution Fund</i>)
Cash	0.7		
Total	7.1	7.1	Total

Note: based on banks' accounts at September 2015 and on provisional evaluations by the National Resolution Authority

Nuova Cassa di Risparmio di Chieti*(billions of euros, rounded)*

Assets		Liabilities	
Loans, investments, etc. (no "bad debts")	3.1	3.3	Deposits, current accounts, bonds and other funding
Claims on "bad bank" (<i>guaranteed by Resolution Fund</i>)	0.1	0.1	Capital (<i>underwritten by Resolution Fund</i>)
Cash	0.2		
Total	3.4	3.4	Total

Note: based on banks' accounts at September 2015 and on provisional evaluations by the National Resolution Authority

Nuova Cassa di Risparmio di Ferrara*(billions of euros, rounded)*

Assets		Liabilities	
Loans, investments, etc. (no "bad debts")	2.9	3.5	Deposits, current accounts, bonds and other funding
Claims on "bad bank" (<i>guaranteed by Resolution Fund</i>)	0.2	0.2	Capital (<i>underwritten by Resolution Fund</i>)
Cash	0.6		
Total	3.7	3.7	Total

Note: based on banks' accounts at September 2015 and on provisional evaluations by the National Resolution Authority

Single "bad bank" for all four*(billions of euros, rounded)*

Assets		Liabilities	
Bad loans	1.5	1.5	Payables to bridge banks
Cash	0.1	0.1	Capital (<i>underwritten by Resolution Fund</i>)
Total	1.6	1.6	Total

Note: based on banks' accounts at September 2015 and on provisional evaluations by the National Resolution Authority