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Italy: Restructuring of Four Banks, 2015

Salil Gupta

Yale Program on Financial Stability Case Study
March 28, 2024

Abstract

The Italian government and Bank of Italy (BoI) presented a collective plan to resolve the crisis at four regional banks in Italy in November 2015, to safeguard the local economies in which these small and medium-size banks were located. The four banks had suffered from low or negative equity capital due to losses in loans to small and medium enterprises and retail clients and were placed under special administration between 2013 and 2015, with unsuccessful attempts to raise private capital. Italian regulators split each bank into a bridge or new bank, comprising all the good assets and liabilities of the original banks including customer loans and deposits, to ensure continuation of each bank's operating activities. For simplicity, the nonperforming loans (NPLs) of each bank were transferred to a single bad bank. Italy's National Resolution Fund—set up just before the resolution—was capitalized by contributions from the banking sector, provided a total of EUR 3.6 billion in 2015 to protect senior creditors and depositors, and recapitalize the bridge banks. Due to insufficient funds, the Resolution Fund received an immediate loan of EUR 4 billion from Italy's three largest banks, and another line of credit of EUR 1.65 billion expiring in 18 months, from Italy's state-owned lender, Cassa Depositi e Prestiti. Due to the absence of a transitional period that would have given banks time to build up liabilities available for bail-in, the Italian authorities chose to delay the full implementation of the European Union's Bank Recovery and Resolution Directive, which would have required the bail-in of at least 8% of liabilities, until January 1, 2016. The BoI's resolution plan provided capital to the bridge banks up to about 9% of risk-weighted assets and determined the write-down of all the equity and subordinated debt holders of the four banks. There was significant negative public reaction to the write-down of subordinated bonds held by mostly retail investors, which led to a compensation plan by the government. All four bridge banks were sold in 2017, with NPL tranches sold to a specialized fund, Atlante, and additional capital injections provided by the Resolution Fund. The BoI provided aid of nearly EUR 5.2 billion to the four banks from 2015 to 2017 and did not recover any capital in the sales.

Keywords: Bail-in, BoI, BRRD, Italy, Resolution Fund

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1 This case study is part of a Yale Program on Financial Stability (YPFS) selection of New Bagehot Project modules considering bank resolutions and restructurings. A survey of all the cases in this series (McNamara et al. 2024) and the individual cases underlying it are available from the Journal of Financial Crises at https://elischolar.library.yale.edu/journal-of-financial-crisis/vol6/iss1/.

2 Research Associate, YPFS, Yale School of Management.
Overview

This module is about the resolution of four regional banks in Italy by the Bank of Italy and the Italian government in 2015.

In November 2015, the Bank of Italy (BoI) and the Italian government acted to collectively resolve four small regional banks that were already under special administration—Banca Marche, Banca Popolare dell’Etruria e del Lazio (Etruria), Cassa di Risparmio di Ferrara (Carife), and Cassa di Risparmio della Provincia di Chieti (Carichieti) (EC 2015a; EC 2015b; EC 2015c; EC 2015d). These banks in total represented just 1% of system-wide deposits, but they had a significant impact on their local economies (BoI 2015a). The four banks had business models focused on lending to small and medium enterprises (SMEs) and retail clients, and funding sources comprised mostly retail deposits (see Figure 8 in Appendix A). The branches of the four banks also represented a high percentage of the total provincial and regional bank branches in the respective regions of Italy.

The four banks were placed under special administration between 2013 and 2015 due to financial and capital losses from increased loan losses to their SME and retail clients. A special administrator was appointed to each of the banks after management was replaced and had a range of responsibilities including improving the quality of the loan portfolio, raising capital, reorganizing the bank, and reducing costs and head counts. The four banks faced inadequate capital and liquidity levels while in special administration, owing to deposit flight and an inability to raise private capital (see Appendix A for details of each bank).

Key Terms

| Purpose: To avoid “prolonging the paralysis of the four banks” and to safeguard local economies where these regional banks operated (BoI 2015a) |
| Size and Nature of Institution | Small and medium-size banks with regional lending to SMEs and retail clients |
| Source of Failure | Financial losses from loan loss provisioning, inability to raise capital, deposit flight (see Appendix A) |
| Start Date | November 22, 2015 |
| End Date | October 3, 2022 with the final sale of RGCS to Cerved SpA |
| Approach to Resolution and Restructuring | Asset separation creating new bridge banks with good assets, to be sold in a bidding process; single bad bank acquired NPLs for liquidation; loss sharing with equity and subordinated bondholders; National Resolution Fund for capital |
| Outcomes | BoI contributed EUR 5.2 billion of aid to four regional banks, with EUR 3.6 billion in 2015 and EUR 1.56 billion in 2017; UBI bought three bridge banks in April 2017; BPER bought Nuova Carife in June 2017; bad bank or RGCS bought NPLs of bridge banks in 2016–2017, required a capital injection in 2020, and sold its platform in 2022; Atlante fund also bought NPLs of bridge banks |
| Notable Features | BoI and Italian government resolved banks after running them in special administration for as long as two years; public outcry over write-down of subordinated debt holders led to government reimbursement; first application of BRRD, although without the bail-in tool (not applicable at the resolution date); resolution implemented in the BRRD framework avoided bailing in senior depositors and creditors |
On November 22, 2015, the BoI and Italian government acted to resolve the four banks by splitting them into four “good” or bridge banks with good assets, deposits, and other senior liabilities, and a single “bad” bank, or asset management vehicle, for the nonperforming loans (NPLs) (BoI 2015a). The BoI also created a National Resolution Fund to fund the four bridge banks and the single bad bank (EC 2015a; EC 2015b; EC 2015c; EC 2015d). The bridge banks remained open with valid banking licenses, and the BoI was required to sell 100% of its stake to private buyers no later than April 30, 2016. The banking license would be revoked no later than two years after the resolution date, after which the bridge bank would enter insolvency proceedings (EC 2015a). With two amendments of the initial European Commission (EC) decision, the deadline for the sale of the bridge banks was extended to December 2016 (EC 2016b).

Each bridge bank was controlled by the BoI as the National Resolution Authority. The Resolution Fund first contributed EUR 1.7 billion in cash to protect the depositors and other senior creditors at the original four banks. These contributions represented a total loss for the fund—it received in return senior claims on the residual bank legal entities, which were immediately liquidated. Existing equity and subordinated debt holders were written off. Second, the fund contributed EUR 1.8 billion to recapitalize the bridge banks to bring the banks’ capital to the regulatory minimum of 9% of risk-weighted assets (RWA) (BoI 2015a).

The bad bank, an asset management vehicle without a banking license called REV Gestione Crediti SpA (RGCS), was established in November 2015 and took over the NPLs of all four banks between February 2016 and January 2017 at a written-down value of EUR 1.5 billion (from original book value of EUR 8.5 billion); it was capitalized by the Resolution Fund for EUR 140 million. The bad bank would sell the NPLs over time, provide proceeds to the Resolution Fund, and then cease to exist (BoI 2015a). The Resolution Fund received an immediate loan of EUR 4 billion from Italy’s three largest banks—Banca Intesa Sanpaolo, UniCredit, and Unione di Banche Italiane (UBI Banca)—including EUR 1.65 billion expiring in 18 months guaranteed by the Cassa Depositi e Prestiti (CDP), an Italian state lender (Reuters 2015). RGCS funded its purchase of the NPLs through a transitional financing agreement with a pool of Italian banks (BoI 2021).

The BoI created the Resolution Fund and transposed the European Union’s (EU’s) Bank Recovery and Regulation Directive (BRRD) 2014/59/EU into Italian law by Legislative Decree 180/2015 on November 16, 2015 (EC 2015a; EC 2015b; EC 2015c; EC 2015d). BoI pursued a bridge bank strategy to ensure the continuity of the essential functions of the bank to its local economies and allow for the transfer of ownership rights from the banks under resolution to third parties when market conditions were more favorable (BoI 2016a).

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3 NPLs that were worst in quality were transferred to the bad bank, while other NPLs (unlikely to pay or past due) remained in the bridge banks.

4 BoI determined these values based on provisional valuations carried out by the central bank acting as the National Resolution Authority. In line with the legal framework, this provisional valuation was followed by an external valuation by independent experts, which determined the final values in the resolution. The European Commission’s decisions on State Aid were based on the updated valuations provided by independent experts.
Although the legislature passed its BRRD law in November, Reuters reported that the Italian authorities wanted to delay implementation of BRRD until January 2016 to allow time to resolve the four regional banks without imposing losses on senior bondholders and deposits above EUR 100,000, which the bail-in tool under the BRRD framework may have required (Reuters 2015). The authorities concluded that there was not enough time to require banks to raise a sufficient amount of debt that would be available for bail-in. The BRRD would have required a bail-in of at least 8% of liabilities before providing any public capital, such as from the Resolution Fund (World Bank 2016). The International Monetary Fund (IMF) and Fitch Ratings have noted that this is the reason Italian authorities chose to delay the implementation of the BRRD and the bail-in tool to January 2016 (ENPNews 2015; IMF 2020). Instead, the government used the Resolution Fund to help the bridge banks reach the regulatory capital target (9% of total RWA), fully protecting senior bondholders and depositors (BoI 2015a; BoI 2015b). The Resolution Fund was capitalized through ad hoc contributions from the banking sector (World Bank 2016).

But the government ultimately backtracked on the write-down of subordinated debt holders. The subordinated debt that was written down had been sold to retail investors (ENPNews 2015). Almost 130,000 retail investors and pensioners lost their investments as part of the resolution measure, which “drew fierce criticism in Italy” and led to a parliamentary inquiry (BBC News 2015). Research by banking scholar Cristina Rovera indicates that a bulk of the subordinated securities were issued between 2006 and 2013, shortly before the Italian banks entered special administration (Rovera 2022). The IMF notes that a large number of Italian retail investors were incentivized to invest in subordinated debt due to the favorable tax treatment (IMF 2020).

In January 2017, UBI Banca, Italy’s third-largest bank, agreed to buy the equity of the bridge banks of Marche, Etruria, and Carichieti, with total assets of EUR 23.3 billion, by paying EUR 1.0 (EC 2017a; Sanderson 2017). The BoI’s Resolution and Crisis Management team continued to look for buyers for Nuova Carife (BoI 2017). The BoI’s terms in 2017 provided up to EUR 1.56 billion of support through a capital injection of up to EUR 810 million from the Resolution Fund, additional guarantees of up to EUR 750 million to UBI, and the transfer of other nonperforming loans to specialized investors (EC 2017a).

The EC noted that the 2017 measures by the BoI provided additional total aid of EUR 1.56 billion to the three bridge banks that were sold to UBI. The EC also estimated that the total State Aid provided to the three banks was between EUR 4.1 billion and EUR 4.9 billion, representing 19–22% of the total assets (EC 2017a).

In March 2017, BPER Banca SpA committed to buy the equity of the bridge bank of Carife for EUR 1.0. Nuova Carife reduced its full-time employee count by roughly 40%, to provide an additional capital injection to “reach a net equity of EUR 153 million equivalent to a CET16 ratio at least equal to [5%-10%] at the end of 2017” (brackets in original) and transfer other

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5 Figures provided were the best estimates at the time. The final real figures were slightly different and updated later.

6 Core equity Tier 1 capital.
nonperforming loans to specialized investors (EC 2017b, 6). Atlante fund was set up as an underwriter of last resort to buy NPL tranches from the four bridge banks as part of the sale agreements to UBI and BPER (EC 2017a; EC 2017b; World Bank 2016). Figure 1 shows a timeline of events relevant to the restructuring of Italy’s four troubled banks.

**Figure 1: Timeline of the Restructuring of Four Banks in Italy**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2013</td>
<td>Carife is placed in special administration, with its management suspended and an interim administrator appointed to restructure the bank.</td>
</tr>
<tr>
<td>June 2013</td>
<td>Marche fails to raise additional capital of EUR 400 million.</td>
</tr>
<tr>
<td>October 2013</td>
<td>Marche is placed in special administration amidst breaches of law, financial losses, and inability to raise capital.</td>
</tr>
<tr>
<td>2014</td>
<td>Marche’s special administration is extended by ministerial decree to October 2015 and further by the BoI to December 2015.</td>
</tr>
<tr>
<td>September 2014</td>
<td>Carichieti is placed in special administration due to legal breaches by the management and deposit flight.</td>
</tr>
<tr>
<td>February 2015</td>
<td>Etruria is placed in special administration, with concerns of loan loss provisioning and deposit flight.</td>
</tr>
<tr>
<td>September 2015</td>
<td>Carife’s administrator has been unable to raise capital, and the bank now has a negative net equity position.</td>
</tr>
<tr>
<td>November 18, 2015</td>
<td>Set-up of the National Resolution Fund is to be managed by the BoI.</td>
</tr>
<tr>
<td>November 22, 2015</td>
<td>BoI and Italian government initiate a plan to resolve the crisis in four regional Italian banks by creating four good bridge banks and a single bad bank (or RGCS), backed by the National Resolution Fund.</td>
</tr>
<tr>
<td>December 2015</td>
<td>BoI initiates the process to sell the bridge banks of the four resolved banks.</td>
</tr>
<tr>
<td>January 2016</td>
<td>BoI invites expressions of interest for the sale of the bridge banks to other investors.</td>
</tr>
<tr>
<td>April 2016</td>
<td>BoI notes a one-month delay in sending information memorandums to potential investors and a two-month delay in closing the books of the four banks for 2015.</td>
</tr>
<tr>
<td>June 2016</td>
<td>BoI appoints a monitoring trustee to implement the 2015 resolution.</td>
</tr>
<tr>
<td>October 2016</td>
<td>BoI signals to EC that the sale process of bridge banks will take longer than expected.</td>
</tr>
<tr>
<td>October 2016</td>
<td>EC amends its decision to extend the deadline for the sale of the bridge banks.</td>
</tr>
<tr>
<td>2016-2017</td>
<td>The bad bank, or RGCS, acquires loans of bridge banks for EUR 2.1 billion.</td>
</tr>
<tr>
<td>May 2017</td>
<td>Marche, Etruria, and Carichieti’s bridge banks are sold to UBI, with NPLs sold to Atlante (a private equity fund owned by the Italian banking industry).</td>
</tr>
<tr>
<td>June 2017</td>
<td>Carife’s bridge bank is sold to BPER Banca SpA, with NPLs sold to Atlante and CFS.</td>
</tr>
<tr>
<td>October 2018</td>
<td>A fund with maximum endowment of EUR 1.5 billion is set up for potential reimbursement related to all four bridge banks.</td>
</tr>
<tr>
<td>March 2019</td>
<td>The financing and collateral agreement is renewed by RGCS, which provides loans at 110% of outstanding debt exposure.</td>
</tr>
</tbody>
</table>
January-June 2020 | RGCS suffers from a capital shortfall in the first half of 2020 and requires recapitalization by the Resolution Fund, its sole shareholder.
---|---
March 2020 | The loan agreement to the RGCS is renewed, with a guaranteed loan amount of EUR 1.1 billion.
October 2020 | Resolution Fund provides EUR 50 million to increase RGCS’s paid-in capital to EUR 241 million. Because of the uncertainty of RGCS’s earning profits on the portfolio of loans, the Resolution Fund introduces a write-down of shareholdings worth EUR 141 million.
March 2022 | RGCS renews the agreement to provide loans at 110% of debt exposure up to June 2024.
October 3, 2022 | RGCS sells its operating platform and provides credit administration, management, and recovery services to Cerved SpA.
December 2022 | The loan amount guaranteed to the RGCS is at EUR 1.1 billion versus EUR 999 million in March 2022.

Source: Author’s analysis.

Summary Evaluation

The IMF’s 2020 assessment indicates that Italy has adopted many of the recommendations in the 2013 Financial Sector Assessment Program including the adoption of the BRRD and a new resolution regime (see Figure 9 in Appendix B). As a response to the EU’s State Aid rules, Italian authorities have adopted a series of industry-backed mechanisms to provide support to troubled financial institutions. The IMF finds that although these mechanisms have helped mitigate financial stability risks, they have increased the overall costs on the banking system (IMF 2020).

The IMF indicates that Italy has a long history of addressing troubled institutions through special administration. IMF’s data notes that roughly half of the 28 banks that were placed in special administration in Italy since 2013 had returned to a going concern status, indicating the limited effectiveness of the resolution tool. Additionally, the IMF notes that the delay in publishing audited financial statement of banks, up to four months after special administration has ended, can reduce their access to fund and adversely affects their ability to maintain client relationships. The EC’s proposed amendments to the BRRD in 2016 recommended limiting such moratorium powers to five days during the early stage of an intervention. The moratorium powers provided in the Italian legislation have been used only in exceptional circumstances (five instances since 2010) (IMF 2020). The BoI notes that there had been no observed difficulty in accessing funding during or after special administration (IMF 2020). The IMF notes that public solvency support outside of resolution (“open bank assistance”) should be used as a last resort since such measures underestimate the losses at distressed banks and skew incentives for risky activities. The IMF believes that solvency support should be extended only to address the broader risk of financial stability and include mechanisms to recover losses by the state from unsecured creditors or the broader financial system through ex post levies (IMF 2020).

The resolution of the four regional banks was the first test of the BRRD policies implemented in Italy. The BoI shared resolution activities with the Single Resolution Board (SRB) from
January 1, 2016, as per Regulation (EU) No. 806/2014. Legal scholar Lorenzo Stanghellini, while reviewing the implementation of the BRRD in Italy for the *Journal of Financial Regulation*, finds the coordinated communication of the resolution by the BoI, European Central Bank, Italian government, and EC as “expected but . . . remarkable.” Stanghellini further indicates that it might be appropriate to create a de facto higher priority for unsecured creditors (uncovered depositors and general creditors) over unsecured bondholders, to limit the adverse impact on depositors to only extreme cases. Italy effectively created a priority for uncovered depositors in 2019 (Stanghellini 2016).

In November 2015, Reuters described the resolution measures as a “halfway house” between the old world of taxpayer funded bailouts of banks and the new regime of the BRRD, under which creditors bear the losses (Unmack 2015). Fitch, a rating agency, stated that that the Italian resolution approach would require extraordinary contributions from Italian banks and adversely affect the banking sector’s profitability. It also noted that financial disclosures were unavailable for the four banks between 2013 and 2015, while they were under special administration, with limited disclosures about the resolution measures due to the four bank’s insolvency and poor asset quality (ENPNews 2015).

Professor Dirk Meyer at Helmut Schmidt University has highlighted that there was considerable opposition to a bail-in of shareholders and creditors in the bank resolution in Italy. As per the BoI, Italian households held more than EUR 200 billion of bank bonds, at a higher proportion than other households in the Eurozone (Meyer 2022). Italian households also held 38% of subordinated bank bonds as of September 2018, which is relatively high compared to 20% in Germany and 10% in France (Micossi 2019).

Later in 2016 and 2017, the BoI, SRB, and EC interpreted the BRRD rules differently to minimize the adverse impact on retail creditors of Banca Monte dei Paschi di Siena, Veneto Banca, and Banca Popolare di Vicenza. This has indicated that the bail-in provisions of the BRRD are difficult to enforce (Brei et al. 2023). The full force of the BRRD would have required Italy to impose losses up to 8% of liabilities before the provision of public capital, potentially imposing losses on depositors and senior bondholders (IMF 2020).

In her book, *Ethics in Banking: Is It Possible?*, Rovera highlights the lack of oversight by regulators in the sale of subordinated bonds of the four regional banks to less sophisticated or retail investors (Rovera 2022). The World Bank notes that Italian banks had created a risk by placing their subordinated debt with retail customers, many of whom were unaware of their bondholder status (World Bank 2016). The IMF also notes that the public controversy with concerns of mis-selling financial products, led to various reimbursement plans by the Italian authorities, increasing the risk of moral hazard (IMF 2020). The initial losses imposed on subordinated bondholders had a negative impact on public trust, since this represented the first time in Italy that creditors of a bank were subject to a haircut (Boccuzzi and Lisa 2022, 62). The World Bank questions the use of the bail-in tool when almost all of the junior debt is held by retail investors (World Bank 2016).

In the case of the four regional banks, the regular contributions by Italian banks were not sufficient to capitalize the Resolution Fund. This indicated the need for resolution funds to
be larger in the future, to be adequately equipped to deal with the resolution of systemically
important banks. The new legal framework, as per Article 44 of BRRD, provides the
resolution authority with discretion in the application of bail-in tools, so as to avoid its use
when there is a financial stability risk (Bodellini 2017).

Professor Federica Maci at the University of Foggia, Italy, concludes that the State Aid rules
and discussions with the EC were immediately effective in attempting to resolve the crisis at
the four regional banks. Maci notes that the European regulators have followed a principle
of minimum harmonization in banking crisis management, allowing member states to adopt
different levels of protection versus those provided in the BRRD (Maci 2018). Professor
Stefano Micossi states that the bank failures in Italy have highlighted the conflicts of
complying with EU rules and managing socioeconomic stability domestically (Micossi 2019).
### Context: Italy, Four Banks, 2012–15

<table>
<thead>
<tr>
<th>Category</th>
<th>Marche</th>
<th>Etruria</th>
<th>Carife</th>
<th>Carichieti</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>EUR 22.7 billion as of 2012</td>
<td>EUR 12.3 billion as of 2014</td>
<td>EUR 6.9 billion as of 2012</td>
<td>EUR 4.7 billion as of 2013</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>EUR 17.3 billion as of 2012</td>
<td>EUR 6.1 billion as of 2014</td>
<td>EUR 4.6 billion as of 2012</td>
<td>EUR 2.1 billion as of 2013</td>
</tr>
<tr>
<td><strong>Deposits</strong></td>
<td>EUR 7.2 billion as of 2012</td>
<td>EUR 6.4 billion as of 2014</td>
<td>EUR 3.4 billion as of 2012</td>
<td>EUR 2.5 billion as of 2013</td>
</tr>
<tr>
<td><strong>Capital (Subordinated Debt)</strong></td>
<td>EUR 0.43 billion as of 2015</td>
<td>EUR 0.27 billion as of 2015</td>
<td>EUR 0.06 billion as of 2015</td>
<td>EUR 0.03 billion as of 2015</td>
</tr>
<tr>
<td><strong>Nonperforming Loans</strong></td>
<td>EUR 4.55 billion as of 2015</td>
<td>EUR 1.89 billion as of 2015</td>
<td>EUR 1.59 billion as of 2015</td>
<td>EUR 0.50 billion as of 2015</td>
</tr>
<tr>
<td><strong>Market Share (% of National Deposits)</strong></td>
<td>Marche: 0.52% in 2015</td>
<td>Etruria: NA in 2015</td>
<td>Carife: 0.26% in 2015</td>
<td>Carichieti: 0.15% in 2015</td>
</tr>
<tr>
<td><strong>Banking System, % of GDP</strong></td>
<td>130.7% as of 2014</td>
<td>128.0% as of 2015</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: EC 2015a; EC 2015b; EC 2015c; EC 2015d.
Key Design Decisions

1. Purpose: The BoI indicated to the EC that the resolution was necessary to ensure (a) continuity in the essential functions of the banks, (b) protection of depositors, and (c) financial stability.

The BoI and the Italian government acted to resolve the crisis situation at four regional banks that had been in special administration, to safeguard the interests of the local economies in which these small or medium-sized banks were located. The resolution plan protected all households and business savings in the form of depositors and senior creditors at the four banks. The Italian government presented a collective solution to the four banks to ensure “business continuity and financial recovery of the four banks,” to avoid “prolonging the paralysis,” and to resolve the crisis (BoI 2015a, 1, 4). The EC noted that the resolution was preserving financial stability, in line with the objectives of Article 31 of the BRRD (EC 2015a). The four banks had approximately 1% of the national deposits in Italy.

Italy recognized that its measures represented State Aid and had requested the EC to verify these steps as per Article 107(3)(b) of the Treaty on the Functioning of the European Union (TFEU). The BoI indicated that the situation at the regional banks threatened financial stability and the economy of Italy. The BoI noted that regular insolvency proceedings would be value destructive and affect the ability to completely protect depositors. The BoI further stressed that liquidation of the banks would require the Italian Deposit Guarantee Scheme (DGS) to cover insured deposits, which would put immense pressure on the Italian banking system (BoI 2015a). Private solutions to the four banks, while under special administration, required capital support from the Italian Deposit Fund (Fondo Interbancario di Tutela dei Depositi, or FITD). The EU’s Single Resolution Mechanism (SRM) requires loss sharing with 8% of the liabilities before provision of any public capital (IMF 2020). Instead, the government presented a resolution plan to provide capital to each bank up to the regulatory capital target (9% of total RWA) from the Resolution Fund, thereby fully protecting senior bondholders and depositors (BoI 2015b; BoI 2015a). The EC approved the resolution plan for the four banks, while asking Italy to ensure that there would be no new State Aid in the eventual wind-down phase of the banks (EC 2016a).

The BoI had utilized Article 32(1) of the BRRD to present the conditions for resolution of Marche, which included that (1) the institution was failing or likely to fail (FOLTIF), (2) there were no private alternatives, and (3) it was in public interest (EC 2015a). The BoI, as the resolution authority, conducted a provisional valuation as per Article 36 of the BRRD and found a capital shortfall of EUR 2.5 billion and subordinated debt of EUR 788 million across the four banks (see Figure 4). Hence, the subordinated debt was insufficient to fully recapitalize the four banks. The BoI conducted provisional valuations of the assets and liabilities of the four distressed banks as per Article 25 of Legislative Decree 180/2015.

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7 Special administration was announced by the Italian Ministry of Economy and Finance after proposal by the BoI under Articles 70(a) and 1(b), and 98 of the Italian Banking Act – Testo Unico Bancario (EC 2015a).
definitive valuation was conducted by independent experts after the resolution, consistent with principles set out under Articles 36 and 74 of the BRRD (BoI 2016b).

2. Part of a Package: The four regional banks were collectively provided additional aid in the form of (a) term extensions for sale of the bridge banks, (b) creation of a single bad bank (RGCS) to transfer loans of the bridge banks, (c) sale of the bridge banks, and (d) recapitalization of the single bad bank (RGCS) by the Resolution Fund.

The deadline for the sale of the bridge banks was extended by five months to September 30, 2016, due to legal issues arising from the write-down of retail bondholders and the valuation of the banks’ assets by external agents. The resolution action in 2015 provided EUR 410 million of aid based on provisional valuation carried out by the BoI (see Figure 2). In October 2016, the EC lowered this figure for aid provided to EUR 348 million, based on new figures provided by the independent valuation expert, and contacted the European Commission to signal that the sale process of the bridge banks would take longer than expected. In 2015, the EC had conducted a very conservative or “safe harbor” valuation assessment of the NPLs and their transfer values to the single bad bank. The 2016 amendment noted that the final valuation of NPLs would be the safe harbor assessment at 20.5% of the book value, higher than previous transfer value estimates at 17.7% of book value (EC 2016b).

As a result of the valuation of the independent expert in 2016, the book value of the NPLs of four banks was revised upwards to EUR 9.24 billion and the transfer value to the asset management vehicle revised upwards to EUR 2.0-2.5 billion, as also seen in Figure 2 (EC 2016b).

**Figure 2: Break up of NPLs across Four Italian Banks (EUR millions)**

<table>
<thead>
<tr>
<th></th>
<th>Book Value</th>
<th>Transfer Value</th>
<th>Transfer Value</th>
<th>Safe Harbor REV</th>
<th>Safe Harbor CMV</th>
<th>Total Aid</th>
<th>New Book Value</th>
<th>New Transfer Value</th>
<th>New TV, as % of Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marche</td>
<td>4,552</td>
<td>916</td>
<td>20.1%</td>
<td>22.6%</td>
<td>(10-20%)</td>
<td>202</td>
<td>4,986</td>
<td>1,000-1,500</td>
<td>(20-30%)</td>
</tr>
<tr>
<td>Etruria</td>
<td>1,896</td>
<td>334</td>
<td>17.6%</td>
<td>19.3%</td>
<td>(10-20%)</td>
<td>98</td>
<td>2,071</td>
<td>400-450</td>
<td>(10-20%)</td>
</tr>
<tr>
<td>Carife</td>
<td>1,587</td>
<td>179</td>
<td>11.3%</td>
<td>16.7%</td>
<td>(5-10%)</td>
<td>84</td>
<td>1,601</td>
<td>200-250</td>
<td>(10-20%)</td>
</tr>
<tr>
<td>Carichetti</td>
<td>500</td>
<td>85</td>
<td>17.0%</td>
<td>18.7%</td>
<td>(10-20%)</td>
<td>26</td>
<td>577</td>
<td>100-150</td>
<td>(10-20%)</td>
</tr>
<tr>
<td>Total</td>
<td>8,535</td>
<td>1,514</td>
<td>17.7%</td>
<td>20.5%</td>
<td>(10-20%)</td>
<td>410</td>
<td>9,235</td>
<td>2,000-2,500</td>
<td>(20-30%)</td>
</tr>
</tbody>
</table>

\(^{a}\) Transfer values across all four banks of 8.4% of book value for uncollateralized and 25% for collateralized NPLs

\(^{b}\) REV is Real Economic Value; Very conservative approach with transfer value of 9.7% for uncollateralized and 27% for collateralized loans

\(^{c}\) CMV is Current Market Value; Transfer value of 0-10% for uncollateralized and 20% for collateralized loans

Source: EC 2016b.

Between 2016 and 2017, the nonperforming loans of the bridge banks were transferred to the single bad bank, or RGCS, for EUR 2.1 billion. A pool of Italian banks provided the funding to the RGCS. The Resolution Fund provided an “autonomous, first demand guarantee” to the lenders (BoI 2021).

On May 10, 2017, three bridge banks (Marche, Etruria, and Carichieti) were sold to Unione di Banche Italiane as the sole bidder. UBI agreed to purchase the equity of the three bridge
banks for EUR 1.0. The BoI’s terms in 2017 provided EUR 1.56 billion through capital injections of EUR 810 million from the Resolution Fund and additional guarantees of EUR 750 million to UBI to protect against any further capital loss and fraud liabilities. The Resolution Fund provided unlimited guarantees to UBI for misrepresentation and fraud liabilities from the 2015 resolution actions, and undisclosed guarantees to cover losses from the three bridge banks. The Italian tax authority approved the availability of EUR 600 million of accumulated deferred tax assets (DTA) to UBI from the bridge banks. The Resolution Fund had a profit-sharing mechanism with UBI for use of the DTA (EC 2017a). At the same time, Atlante fund purchased the NPLs of the three banks with gross book value of EUR 2.2 billion through senior and mezzanine bonds of securitized NPLs (EC 2017a; Reuters 2017).

Atlante fund was set up as a private equity vehicle backed by the main Italian banks, including an 8% minority stake held by Casa Depositi e Prestiti, an Italian state lender (Garrido, Kopp, and Weber 2016). Atlante was tasked with purchasing NPLs and saving a few regional banks that were unable to raise capital independently (Borrelli 2016). Atlante I raised EUR 4.25 billion from banks and insurers to recapitalize troubled banks, and Atlante II raised EUR 3.5 billion to purchase bad bank debt (Za and Mandala 2016).

On June 30, 2017, Nuova Carife was sold to BPER Banca SpA, along with a capital injection of EUR 290 million by the Resolution Fund. At the same time, NPLs of EUR 340 million from Nuova Carife were sold to Atlante and Credit Fondiario SpA (CFS) (EC 2017b; Magno 2017). The Resolution Fund provided unlimited guarantees to BPER for misrepresentation and fraud liabilities from the 2015 resolution actions and undisclosed guarantees to cover losses from Nuova Carife. There was a profit sharing agreement between the Resolution Fund and BPER for the use of DTA and sale of real estate and other assets (EC 2017b).

In the first half of 2020, the single bad bank, or RGCS, suffered from a capital shortfall and required recapitalization by its sole shareholder, the Resolution Fund. In October 2020, the Resolution Fund provided EUR 50 million to increase RGCS’s paid-in capital to EUR 241 million. Due to the uncertainty of RGCS’s earning profits on the bridge bank’s portfolio of loans, the Resolution Fund wrote down its shares in RGCS by EUR 141 million (Bol 2021). In March 2022, BoI renewed its loan agreement with the RGCS, to provide loans at 110% of debt exposure for 12 months maturity. As of December 2022, the loan amount guaranteed to the RGCS was at EUR 1.1 billion, compared to March 2022 at EUR 999 million (BoI 2022).

3. **Legal Authority:** The BoI utilized the Italian Resolution Decree, which incorporates the EU’s new BRRD mechanism, to present a resolution plan for the four regional banks.

The resolution mechanisms applied to the four banks were decided by the BoI and approved by Italy’s Ministry of Economy and Finance (EC 2015a). The Italian government launched the Resolution Decree as per Legislative Decree 180/2015 in November 2015, incorporating the core principles of the BRRD, including resolution planning, procedures, tools, safeguards, and funding (see Figure 3) (Bol 2015a; IMF 2020).
The BRRD required each EU member to establish a Resolution Fund starting in 2015. The law also provided for the creation of a Single Resolution Mechanism as per Regulation (EU) No. 806/2014 and the Single Resolution Fund (SRF). Italian banks were to contribute EUR 5.7 billion of the total EUR 55 billion to be raised by the SRF, equivalent to 1% of covered deposits (BoI 2016b).

The BoI, similar to the BRRD, determines if a bank is FOLTTF if no supervisory or private sector measures are available to resolve the situation (see Appendix B). The BoI also possesses the ability to write down or convert capital instruments to provide additional capital to the bank. The BoI can choose to initiate resolution prior to balance sheet insolvency and does not require the application of early intervention measures (see Figure 9 in Appendix B) (IMF 2020).

An Italian bank can be placed in special administration as per Articles 70 (a) and 1(b) and 98 of the Italian Banking Act, Testo Unico Bancario or Consolidated Law on Banking (TUB)—pre-BRRD legislation used by the BoI. A bank is placed in special administration after “serious capital losses and/or serious capital irregularities” (Borrelli 2016). Following are the dates when each bank entered special administration:

- Carife on May 27, 2013 (EC 2015c),
- Marche on October 15, 2013 (EC 2015a),
- Carichieti on September 5, 2014 (EC 2015d), and

The conditions necessary to place a bank under special administration are established under the TUB and include “serious capital losses and/or serious irregularities” (BoI 2023).

The BoI established the Resolution Fund by Measure No. 1226609 as of November 18, 2015 (BoI 2016b). The BoI conducted provisional valuations of the assets and liabilities of the four distressed banks as per Article 25 of Legislative Decree 180/2015. The independent experts were appointed after the resolution and performed their definitive valuation according to Articles 36 and 74 of the BRRD (BoI 2016b).
The EC noted that the Italian banking system was suffering from a high NPL level of 17.3% of total lending in 2014, due to weak economic growth and a “very cumbersome and slow legal insolvency procedure.” (EC 2015a, 10) The EC noted that Italy had taken initial steps to reform the insolvency laws to allow for faster resolution of NPLs (EC 2015a). The EC approved Italy’s 2015 resolution decisions given the several commitments including the sale of the bridge banks, followed by stopping new businesses, a wind-down phase if not sold, and finally a liquidation phase. Italy agreed to waive its rights under Article 342 of the Treaty on the Functioning of the EU (EC 2016a). The TFEU prohibits State Aid unless for special reasons to eliminate advantages from government support within the EU. FITD is the private Italian deposit guarantee scheme for noncooperative banks formed by a consortium of private banks to provide deposit insurance to failing banks (Todino 2019).

4. Administration: The BoI appointed a board of directors for each of the bridge banks and external valuation and auditing agents for the bad bank.

On November 18, 2015, the National Resolution Fund was set up to be managed by the BoI. The BoI appointed the board of directors at each of the bridge banks, as a shareholder in each bank through the Resolution Fund and through control of the bridge banks as per the BRRD (BoI 2021).

Roberto Nicastro, the former Director General of UniCredit, Italy’s largest systemically important bank, was assigned as chair of the board of directors for each of the bridge banks by the BoI (BoI 2015a). By June 2016, the BoI had appointed an independent monitoring administrator to follow the commitments relating to State Aid in the 2015 resolution plan for the four banks (EC 2016b).

Three external experts (BDO Italia, Deloitte & Touche, and KPMG) were appointed as per Article 25(3) of Legislative Decree 180/2015 to provide the independent valuations on the distressed banks to the BoI. PricewaterhouseCoopers was also retained to provide an external audit, as a previously existing auditor for one of the banks. The Resolution Fund’s accounts were audited by the Board of Auditors at the BoI (BoI 2016b).

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**Figure 3: Articles of the BRRD Used by the BoI to Resolve the Four Regional Banks**

<table>
<thead>
<tr>
<th>Article no.</th>
<th>Resolution power</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>Provides specific conditions required to take a resolution action</td>
</tr>
<tr>
<td>34</td>
<td>Provides general principles of resolution</td>
</tr>
<tr>
<td>36</td>
<td>Allows resolution authority to carry out a provisional valuation to determine adequate resolution measures</td>
</tr>
<tr>
<td>40, 41</td>
<td>Allows application of the bridge bank resolution tool</td>
</tr>
<tr>
<td>42</td>
<td>Allows application of the asset separation and sale of business tools</td>
</tr>
<tr>
<td>59</td>
<td>Allows for full write down of subordinated liabilities</td>
</tr>
<tr>
<td>100</td>
<td>Allows for financing arrangement for the Resolution Fund</td>
</tr>
<tr>
<td>103, 104</td>
<td>Allows for current and three year ex-post contributions to the Resolution Fund</td>
</tr>
</tbody>
</table>

Sources: EC 2015a; EC 2015b; EC 2015c; EC 2015d.
5. **Governance: The BoI managed the Resolution Fund and monitored the bridge banks.**

The BoI managed the Resolution Fund, including controlling the setting up of the endowment fund with capital from 600 banks as of December 2015. The Resolution Fund was capitalized with funds separate from those of the BoI, and its funds were to be used solely for the resolution process. For 2015, the ordinary contributions to the BoI were EUR 588 million. The BoI called on extraordinary contributions to fund the resolution of the four regional banks, with the total capital calls amounting to EUR 2.4 billion (BoI 2016b).

The bridge banks were expected to monitor credit risk through alerts and reports to the BoI’s Supervisory Department, and the Resolution and Crisis Management Unit. The boards of directors of the bridge banks could take corrective actions based on this information, which was also shared with the monitoring trustee. If a bridge bank was failing to meet any targets, remedial action had to be formulated and presented by the bank to the monitoring trustee, who in turn provided updates to the EC. The monitoring trustee was expected to submit a final report at the end of the bridge bank’s existence (EC 2015a).

Point 88 of the EC’s 2013 Banking Communication requires that the EC be able to monitor the resolution process and its impact on competition. The monitoring trustee, appointed by the BoI, was expected to be independent, ensure compliance with the EC’s expectations, and provide a report on the bridge banks by March 2016. If the bridge banks had not yet been sold, the monitoring trustee was expected to provide the EC with reports by May 2016, and continue to do so at six-month intervals until the bridge banks were completely liquidated (EC 2015a).

6. **Communication and Disclosure: The BoI stated that the resolution was required for (a) the broader interest of the local economies, (b) to protect depositors, (c) to preserve the jobs of bank employees, and (d) to require no taxpayer funds.**

The BoI disclosed its reasons for the resolution measures through a press release on November 22, 2015 (BoI 2015a). Italy’s Prime Minister Matteo Renzi provided the following reasoning for the intervention: “The Italian government intervened when it saw that four banks risked closing and losing thousands of jobs and deposits” (BBC News 2015, 2).

Italy’s resolution imposed losses on 130,000 shareholders and subordinated bondholders, including some pensioners and savers, which drew criticism from the opposition in the Italian Parliament (BBC News 2015). It was also reported that BoI’s plan requiring no state funds might have been “too good to be true” due to the capital provision by state lender CDP to the Resolution Fund and increased taxpayer costs as a result of future potential levies to the banking system by the Resolution Fund (Unmack 2015).

The BoI communicated its decisions through press releases, official announcements, its annual reports, financial stability reports, and the Resolution Fund’s annual reports (BoI 2015a). The BoI also provided a list of frequently asked questions on its website to provide clarifications on the resolution of the four regional banks (BoI 2023). There were mandatory reporting requirements to the monitoring trustee or administrator (EC 2015a).
The European Commission filed a document each on the four regional banks to provide its approval of State Aid administered by Italy in 2015 (EC 2015a; EC 2015b; EC 2015c; EC 2015d). The EC also provided its decisions of approval through individual disclosures in 2016 and 2017 on the additional State Aid by Italy (EC 2016a; EC 2017a).

7. **Source and Size of Funding:** The National Resolution Authority was capitalized by ex ante contributions of the banking system and immediately required EUR 4 billion in loans from three large Italian banks and a state lender, CDP.

The Resolution Fund initially made a contribution of EUR 3.6 billion for the resolution of four Italian banks (BoI 2021). The fund immediately wrote down EUR 1.7 billion of that amount to protect depositors and senior creditors; it then invested EUR 1.8 billion to recapitalize each bridge bank to 9% of RWA (BoI 2015b).

The BoI declared that the Italian state did not bear any direct cost for the Resolution Fund. Three major Italian Banks (UniCredit, UBI Banca, and Banca Intesa Sanpaolo) provided EUR 4 billion at “market rates” and a maximum maturity of 18 months (BoI 2015a). The loan to the Resolution Fund was guaranteed by a right to obtain financial support of EUR 1.7 billion from Cassa Depositi e Prestiti, a state-owned lender. The CDP was obligated to intervene if the Resolution Fund’s resources were insufficient to meet its debt service obligations for the next tranches of the loan (BoI 2016c). The Resolution Fund also had raised EUR 2.4 billion from ex ante contributions from the entire Italian banking sector, but sufficient funds were not available given its recent set-up in November 2015 (World Bank 2016). The total loan of EUR 4 billion from the three major Italian banks was divided into three tranches: EUR 2.4 billion, EUR 1.6 billion, and EUR 100 million (BoI 2016b).

In December 2016, the BoI called on Italian banks for two ordinary annual contributions for a total of EUR 1.53 billion, which was renewed in the form of a four-year loan in May 2017. As of December 2016, the outstanding amount was EUR 1.55 billion after a partial repayment of the bridge loan. In 2018, 2019, and 2020, the BoI called on additional contribution of EUR 310 million in three separate installments (BoI 2021).

The ordinary and extraordinary compulsory contributions of banks to the Resolution Fund were specified under Articles 82 and 83 of Legislative Decree 180/2015 (EC 2015a). As per Italian Law 208/2015, the BoI can call on additional funds if the Resolution Fund is determined to be inadequate. The total amount is determined by Articles 70 and 71 of Regulation (EU) No. 806/2014 (BoI 2021).

The Italian government covers the funding gap between transferring assets and liabilities to a bridge bank. Article 100(5) of the BRRD requires the establishment of a Resolution Fund or financing agreement. The Resolution Fund was financed through current ordinary contributions for 2015 and ex post contributions for three years as per Articles 103 and 104 of the BRRD. In order to limit the overall cost, in 2015, Italy committed to not provide additional funding to the Resolution Fund or bridge banks, except for the limited funding provided for the liquidating of the residual entities (EC 2015a).
8. Approach to Resolution and Restructuring: The BoI utilized the bridge bank tool, bad bank tool, and sale-of-business tool of the BRRD for the resolution of the four regional banks.

For each of the four banks, Italy decided to use the bridge bank resolution tool and the asset separation tool, in line with Articles 40, 41, and 42 of the Bank Recovery and Resolution Directive (EC 2015a; EC 2015b; EC 2015c; EC 2015d). The BRRD, which was transposed into Italian law by Legislative Decree 180/2015 on November 16, 2015, requires loss sharing with equity and subordinated debt holders for banking resolutions (BoI 2015a).

As per the plan on November 22, 2015, the four banks were split by their balance sheets into a “good” bridge bank each and a single “bad” bank. Each bridge bank was capitalized to 9% of risk-weighted assets by the Resolution Fund, which was administered by the BoI (BoI 2015a). The bridge banks were controlled by the BoI and owned by the Resolution Fund (EC 2015a).

The Resolution Fund made an initial total commitment of EUR 3.6 billion to the four banks in 2015, as per the following breakout (see also Figure 4):

1) EUR 1.7 billion of capital for loss absorption across the four banks
2) EUR 1.8 billion to recapitalize all four bridge banks
3) EUR 140 million to capitalize the single bad bank (BoI 2015a)

Figure 4: Breakup of Resolution Measures across the Four Banks (EUR millions)

<table>
<thead>
<tr>
<th></th>
<th>Prior to Resolution</th>
<th>Resolution Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bad Loans</td>
<td>Capital Shortfall</td>
</tr>
<tr>
<td>Marche</td>
<td>916</td>
<td>1432</td>
</tr>
<tr>
<td>Etruria</td>
<td>334</td>
<td>557</td>
</tr>
<tr>
<td>Carife</td>
<td>179</td>
<td>493</td>
</tr>
<tr>
<td>Caricheiti</td>
<td>85</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>1,514</td>
<td>2,535</td>
</tr>
</tbody>
</table>

Sources: EC 2015a; EC 2015b; EC 2015c; EC 2015d.

The resolution approach used by the BoI at each of the four banks is illustrated by the resolution of Marche. The resolution consisted of the following steps as illustrated in Figure 5:

(a) The bridge bank, New or Nuova Marche, received EUR 1.005 billion from the Resolution Fund to absorb losses, protecting depositors and other senior liabilities.
All of the assets of Marche, including EUR 12.4 billion of good assets and EUR 0.916 billion of NPLs, and “good” liabilities, including EUR 14.3 billion in deposits, were first transferred to New Marche. The NPLs of EUR 0.916 billion were then transferred from Marche to a single bad bank, or RGCS, with New Marche retaining a claim on the bad bank on the asset side of its balance sheet.

New Marche received EUR 1.041 billion in recapitalization from the Resolution Fund. The Resolution Fund had a senior claim on New Marche’s assets in exchange for its capital contribution.

Subordinated debt of EUR 250 million qualified as regulatory capital and was written down directly (Article 59 of the BRRD). The remaining EUR 178 million stayed in the residual Marche entity, with no assets to be liquidated.

New Marche was to be sold by the special administrator through an open, transparent bidding process by November 2017 (Article 41 of the BRRD).

A single bad bank, or RGCS, acquired all its NPLs.

The residual bank was shut down and lost its banking license; remaining subordinate debt investors and the Resolution Fund lost their entire investments (BoI 2015a).

### Figure 5: Marche Resolution

<table>
<thead>
<tr>
<th>Step 1</th>
<th>BRIDGE BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td><strong>Liabilities</strong></td>
</tr>
<tr>
<td>Other transferred assets</td>
<td>EUR 12.4</td>
</tr>
<tr>
<td>NPLs (suffrance)</td>
<td>EUR 0.916</td>
</tr>
<tr>
<td>Loss absorption capital</td>
<td>EUR 1.005</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>EUR 14.3</td>
</tr>
</tbody>
</table>

* cash provided by Resolution Fund

<table>
<thead>
<tr>
<th>Step 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New Marche (in EUR billions)</strong></td>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td>Loans (excl. bad debts)</td>
<td>EUR 12.4</td>
</tr>
<tr>
<td>Claims on bad bank (RGCS)</td>
<td>EUR 0.916</td>
</tr>
<tr>
<td>Cash</td>
<td>EUR 2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>EUR 15.3</td>
</tr>
</tbody>
</table>

* guaranteed by Resolution Fund

<table>
<thead>
<tr>
<th>Step 3</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Residual Marche (in EUR billion)</strong></td>
<td><strong>Assets</strong></td>
</tr>
<tr>
<td></td>
<td>Loan from resolution fund</td>
</tr>
<tr>
<td></td>
<td>Subordinated debt</td>
</tr>
<tr>
<td></td>
<td>Own Funds (after losses)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
</tbody>
</table>

* underwritten by Resolution Fund

Sources: BoI 2015a; EC 2015a.
The provisional valuation of the BoI estimated gross book value of Marche’s loan portfolio to be EUR 4.55 billion, with more than 90% loans in the corporate sector and 74% of loans non-collateralized. The NPL portfolio was held on Marche’s books at the time of resolution at EUR 2.14 billion and was written down and transferred to the single bad bank at a valuation of EUR 916 million. In payment, the bridge bank received debt of the bad bank (RGCS) that the Resolution Fund guaranteed, as seen in Steps 1 and 2 of Figure 5 (EC 2015a).

9. Treatment of Creditors and Equity Holders: Shareholders and subordinated debt holders were written down entirely to absorb the losses at the four banks. Depositor and senior bondholder claims were transferred to the bridge banks and fully protected. However, the government later reimbursed subordinated debt holders and equity holders up to EUR 100,000.

The shareholders and subordinated bondholders bore EUR 870 million of the losses for the four banks (EC 2015a; EC 2015b; EC 2015c; EC 2015d). The Resolution Fund bore EUR 1.7 billion of further losses (BoI 2023).

The subordinated debt that counted as Additional Tier 1 or Tier 2 regulatory capital was fully written down, consistent with Article 59 of the BRRD. The remaining subordinated debt remained in the residual entity (see Key Design Decision No. 8, Approach to Resolution and Restructuring), where it was liquidated (EC 2015a). Hence, all subordinated debt holders were fully written down. Figure 6 details the treatment of subordinated debt holders.

Figure 6: Treatment of Subordinated Debt Holders across Four Italian Banks (EUR millions)

<table>
<thead>
<tr>
<th></th>
<th>Subordinated Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Sub Debt</td>
</tr>
<tr>
<td>Marche</td>
<td>428</td>
</tr>
<tr>
<td>Etruria</td>
<td>274</td>
</tr>
<tr>
<td>Carife</td>
<td>60</td>
</tr>
<tr>
<td>Caricheiti</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>788</strong></td>
</tr>
</tbody>
</table>

Note: All subordinated debt that was not bailed-in as per BRRD was liquidated in the residual banks.

Sources: EC 2015a; EC 2015b; EC 2015c; EC 2015d.

There was significant negative public reaction to the bail-in of subordinated bonds held by retail investors (Garrido, Kopp, and Weber 2016). In 2015, the Solidarity Fund (Fondo di Solidarietà) was established to be managed by the FITD and to provide a flat compensation amounting to 80% to 95% of the purchase price of the bond to retail investors. In 2018, the Italian authorities established the Financial Relief Fund (Fondo di Ristoro Finanziario), with EUR 25 million, to provide compensation to equity holders up to EUR 100,000. The compensation plan aimed to provide automatic payment to retail investors with an annual income up to EUR 35,000 and create a special commission to judge cases for higher-income
investors (Fonte and Bernabei 2019). The Italian 2019 budget introduced the Savers Compensation Fund (Fondo Indennizzo Risparmiatori) to compensate retail investors, regardless of potential mis-selling, and allocated EUR 525 million per year until 2021 (IMF 2020).

This latter fund did not constitute State Aid due to its voluntary nature of contributions by banks (Garrido, Kopp, and Weber 2016). The European Commission’s Margrethe Vestager stated to EU state members that Italy could provide compensation to retail investors that were mis-sold bank bonds and lost their life savings in bank resolutions between November 2015 and January 2018 (Reuters 2019). The plan also received approval from the EU’s competition authorities and the associations representing Italian savers (Fonte and Bernabei 2019).

All depositors and senior bondholders were protected as per the resolution plan outlined in Key Design Decision No. 8, Approach to Resolution and Restructuring.

10. **Treatment of Clients:** The existing depositors of each of the four regional banks were transferred to their respective bridge banks.

Deposits of EUR 27.8 billion were transferred in aggregate from the four regional banks to the four bridge banks. The bridge banks were not allowed to pursue any new clients if they were not sold by April 30, 2016 (EC 2015a).

11. **Treatment of Assets:** The good assets of the four banks were transferred to each bridge bank, and bad assets (NPLs) were transferred to a single bad bank, or RGCS, for sale.

All of the “good” assets of the four banks, including EUR 24.5 billion of customer loans, and EUR 1.5 billion of claims on the bad bank in the form of NPLs and “good” liabilities were transferred to the bridge banks in total.

For simplicity, a single bad bank in the form of an asset management vehicle was used to take on the EUR 1.5 billion of NPLs of all four banks (see Figure 7). The bad bank was capitalized by EUR 140 million from the Resolution Fund. The bad debts were written down from a value of EUR 8.5 billion to EUR 1.5 billion, with the expectation of future sales in order to maximize the recovery of funds (BoI 2015a). Between 2016 and 2017, the nonperforming loans of the bridge banks were transferred to the single bad bank, or RGCS, for EUR 2.1 billion, according to the results of the definitive valuation carried out by the independent expert. A pool of Italian banks provided the funding to the single bad bank, or RGCS (BoI 2021). As seen in Figure 7, any future sales by the RGCS will be claimed by the bridge banks and contribute to reducing the Resolution Fund’s cost of resolution. There was no further information disclosed about the success of asset sales of RGCS.
12. Treatment of Board and Management: The BoI initiated sanction proceedings against all the bank executives charged with administrative irregularities.

Sanction proceedings in Italy are governed by Article 145 of the Consolidated Law on Banking and Laws 689/1981, 241/1990, and 262/2005 (BoI 2023).

The four banks were placed under special administration between 2013 and 2015 due to financial and capital losses from increased loan losses to their SME and retail clients. A special administrator was appointed to each of the banks after management was replaced and had a range of responsibilities including selling nonperforming loans, raising capital, reorganizing the bank, and reducing costs and head counts (EC 2015a; EC 2015b; EC 2015c; EC 2015d). Lastly, each bank's financials during special administration are not disclosed to the public, only to the BoI (Rovera 2022).

13. Cross-border Cooperation: There was no disclosed cross-border cooperation as part of the resolution.

There was no disclosed cross-border cooperation required since this involved the resolution of four regional banks in Italy.
14. Other Conditions: The BoI’s resolution plan included commitments by the Italian government on sale timelines, restrictions on investment and executive compensation at the bridge banks, and limits to new business once in the wind-down phase.

The bridge banks were established for a limited time, expected to be sold in an open and transparent bidding process, and would be wound down if not sold by April 2016. The bridge banks would lose their banking licenses by November 22, 2017, and would then be subject to insolvency proceedings if not sold. The BoI also committed to the EC that in the case a sale did not materialize, the sale of the bank’s business would occur in lots, with volume limits per buyer to limit distortions to competition. If placed in orderly wind-down, the bridge banks could not acquire any new business or clients, and only carry out activities to maximize recovery values of the loan book and limit capital losses (EC 2016a).

The bridge banks were restricted to purchasing only investment-grade or euro area sovereign securities. The bridge banks also had maximum limits to executive compensation (including wage, pension, bonus) of 15 times Italy’s national average salary or 10 times the bank’s employee average salary. The bridge bank could, after approval from the BoI and EC, acquire businesses in “exceptional circumstances” to restore financial stability or market competitiveness. The bridge banks were also to refrain from advertising their support from the Resolution Fund (EC 2015a).

15. Duration: The government extended its deadline to sell the bridge banks from January 2016 to November 2017, and the BoI was successful in doing so between January and June 2017.

In resolution cases, the EC has competition concerns arising from the existence of both a residual entity and a bridge bank. Article 107(1) of the TFEU describes any State Aid as incompatible if it distorts the competition in the production of goods (or banking services) amongst member states in the EU region. The EC concluded that, in line with case law, the provision of funds by a resolution fund (even one financed by private sources) counted as State Aid (EC 2015a).

To address this concern, Italy committed to a removal of the banking licenses of the residual entities by December 20, 2015, and to launch insolvency proceedings by June 30, 2016. The residual entities were also not allowed to pursue any new activities to limit any further competition concerns. Similarly, for the bridge banks, Italy committed to a sale by April 30, 2016, or to enter insolvency proceedings by November 2017. The bridge banks’ banking licenses would remain active to resolve the loan portfolio but with a limit of two years (EC 2015a).

By April 2016, the BoI had distributed the information memorandum for the sale of bridge banks to potential investors, including incurring a delay of one month. The BoI reported that

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8 Case C-345/02 Pearle and others EU:C:2004:448, paragraphs 37 and 38 (EC 2015a).
it had incurred a two-month delay in closing the 2015 accounts of the four banks and was yet to appoint a monitoring trustee for each bank (EC 2016a).

In January 2017, UBI Banca, Italy's third-largest bank, agreed to buy the good banks of Marche, Etruria, and Carichieti, with total assets of EUR 23.3 billion, by paying EUR 1.0. The Resolution Fund provided a further capital injection to the three bridge banks prior to the sale to UBI. The three bridge banks also sold EUR 2.2 billion of NPLs to a banking industry rescue fund, Atlante (Za and Mandala 2017).

In June 2017, Nuova Carife was sold to BPER Banca SpA, along with a capital injection of EUR 290 million by the Resolution Fund. At the same time, NPLs of EUR 340 million from Nuova Carife were sold to Atlante and CFS (Magno 2017). The EC noted that the 2017 measures by the BoI provided additional total aid of EUR 1.56 billion through capital injections and guarantees to the four regional banks (EC 2017a).

In the case of the four regional banks, the regular contributions by Italian banks were not sufficient to capitalize the Resolution Fund. This indicated the need for resolution funds to be larger in the future, to be adequately equipped to deal with the resolution of systemically important banks (Bodellini 2017).
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https://ypfs.som.yale.edu/node/23437/
Appendixes

Appendix A

Figure 8: Background on the Four Regional Banks in Italy

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Customer Loans</th>
<th>Deposits</th>
<th>Year end</th>
<th>Branches</th>
<th>Employees</th>
<th>Shareholders</th>
<th>Deposits, National %</th>
<th>Branch, National %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marche</td>
<td>22,700</td>
<td>17,300</td>
<td>7,200</td>
<td>2012</td>
<td>308</td>
<td>2,530</td>
<td>-</td>
<td>0.52%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Etruria</td>
<td>12,300</td>
<td>6,100</td>
<td>6,400</td>
<td>2014</td>
<td>175</td>
<td>-</td>
<td>62,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Carife</td>
<td>6,900</td>
<td>4,600</td>
<td>3,400</td>
<td>2012</td>
<td>106</td>
<td>816</td>
<td>28,000</td>
<td>0.26%</td>
<td>-</td>
</tr>
<tr>
<td>Caricetii</td>
<td>4,700</td>
<td>2,100</td>
<td>2,500</td>
<td>2013</td>
<td>67</td>
<td>583</td>
<td>-</td>
<td>0.15%</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46,600</strong></td>
<td><strong>30,100</strong></td>
<td><strong>19,500</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>656</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Etruria had no significant institutional holding of shares, and a "banco popolare" with each shareholder with only one vote regardless of the number of shares held.

<table>
<thead>
<tr>
<th>Region</th>
<th>Branch, Regional %</th>
<th>Branch, Provincial %</th>
<th>Business Model</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marche</td>
<td>-</td>
<td>-</td>
<td>Retail, SME</td>
<td>Marche, Central Italy (Emilia Romagna, Abruzzo, Lazio, Molise, Umbria)</td>
</tr>
<tr>
<td>Etruria</td>
<td>3.7%</td>
<td>18.5%</td>
<td>Retail, SME</td>
<td>Tuscany, Central Italy</td>
</tr>
<tr>
<td>Carife</td>
<td>2.5%</td>
<td>33.6%</td>
<td>Retail, SME</td>
<td>Ferrara (Emilia Romagna)</td>
</tr>
<tr>
<td>Caricetii</td>
<td>9.5%</td>
<td>27.40%</td>
<td>Retail, SME</td>
<td>Abruzzo, Chieti</td>
</tr>
</tbody>
</table>

Sources: EC 2015a; EC 2015b; EC 2015c; EC 2015d.

Banca Marche

The bank was placed under provisional management in August 2013, after its capital ratio of 6.64% decreased below the minimum requirements set by Italian regulators due to negative earnings results (EC 2015a). The bank had also failed to raise additional capital of EUR 400 million in June 2013 (EC 2015a). In October 2013, Marche was placed in special administration, and its governance bodies were dissolved (EC 2015a). This action was taken due to administrative irregularities such as breaches of law, financial losses, and deficiencies (EC 2015a). The period for special administration was extended by one year after a ministerial decree to October 2015, and later by a decision of the Bank of Italy (BoI) to December 2015 (EC 2015a). The goal of special administration was to address organizational challenges, prevent new lending, and achieve overall annual cost savings of 10% (EC 2015a). The special administration was successful in reducing risk-weighted assets by 15% and reducing operational costs through a 30% reduction in assets (EC 2015a). As of September 2015, the net equity of Marche had dropped to EUR 13 million, which was insufficient by prudential norms (EC 2015a). Marche’s liquidity buffer at EUR 221 million had dropped to 1.4% of assets in November 2015, providing inadequate safety margins for a daily payments system with a minimum buffer of EUR 200 million (EC 2015a). The potential withdrawal of deposits by any large corporate clients would have led to a negative liquidity position at Marche, triggering the need for a resolution by the BoI (EC 2015a).

Banca Popolare dell’Etruria e del Lazio (Etruria)

This entity represented a banking group comprising three local banks, two small insurance companies, a special purpose vehicle, a municipal company, and a precious metals brokerage
In February 2015, Etruria was placed under special administration due to capital losses related to loan loss provisioning, which reduced the group’s funds below minimum capital requirements (EC 2015b). The immediate trigger for capital losses at the group were the recently adopted stricter nonperforming loan (NPL) recognition norms (EC 2015b). During special administration, Etruria’s management was removed, a portfolio of NPLs was transferred to another bank, and Banca Lecchese (local bank holding) was sold to an investment fund (EC 2015b). As of September 2015, the net equity of Etruria had dropped to EUR 22.5 million, as deposit flight continued to threaten the funding of the bank (EC 2015b).

**Cassa di Risparmio di Ferrara (Carife)**

This entity was a banking group based in the Ferrara region of Italy and accounted for 33% of all the bank branches in the province (EC 2015c). In May 2013, Carife was placed in special administration by the Ministry of Economy and Finance, after a recommendation from the BoI (EC 2015c). The BoI dissolved the management of Carife and appointed an interim administrator, who was working to restructure Carife (EC 2015c). In the three years of special administration, Carife was significantly downsized, with assets dropping by 50% to EUR 3.5 billion, customer loans reduced by 43% to EUR 2.6 billion, and deposits down 21% to EUR 2.8 billion (EC 2015c). The special administrator was unsuccessful in raising private funds for Carife since 2013 (EC 2015c). As of September 2015, Carife had a net equity position of negative EUR 24 million (EC 2015c). By November 2015, Carife’s liquidity position had dropped to EUR 36 million, or 1% of assets, representing insufficient safety margins for the payment system and making the group vulnerable to a negative liquidity position from further withdrawal of funds by large corporate clients (EC 2015c).

**Cassa di Risparmio della Provincia di Chieti (Carichieti)**

This small regional banking group in the Italian region of Abruzzo was founded in 1862 (EC 2015d). The group represented 27% of bank branches in the Chieti province and almost 10% of bank branches in the Abruzzo region (EC 2015d). In September 2014, the group was placed in special administration to fix administrative irregularities and legal violations by management (EC 2015d). The special administrator helped reorganize the bank, reduce costs, and review all lending practices (EC 2015d). The special administrator was unsuccessful in raising private capital for the group (EC 2015d). As of September 2014, Carichieti had a net equity position of EUR 68 million, which did not satisfy prudential requirements (EC 2015d). The group’s liquidity position had also continued to deteriorate and remained critical due to deposit flight (EC 2015d).
## Appendix B

### Figure 9: Initiation of Resolution Procedures in Italy

<table>
<thead>
<tr>
<th>Determination</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure or likely to fail determination (art 17.1)</td>
<td>Bank continues to operate if sufficient to restore going concern operations; if not</td>
</tr>
<tr>
<td>No alternative measures (art 17.2)</td>
<td>Resolution if in the “public interest” (art 20.1b)</td>
</tr>
<tr>
<td>Restorative write-down and conversion (art 20.1a)</td>
<td>Liquidation if no “public interest” (art 20.1b)</td>
</tr>
</tbody>
</table>

### Notes:

1. A FOLT determination would typically be initiated by the Directorate General for Financial Supervision and Regulation, in its capacity as NCA, but the RCMU (as NCA) is duly empowered to (also) make an FOLT determination if it deems this necessary in view of inaction by the BdI’s supervisory function.

2. The commencement of resolution proceedings, or initiation of a restorative write-down and conversion, need to be preceded by a “fair, prudent, and realistic” valuation of the entity’s assets and liabilities. The valuation is to be performed by an independent expert, appointed by the BdI and should confirm that the conditions for initiating resolution (or conducting a write-down and conversion) are met. In case of urgency, actions can be initiated based on a provisional valuation, to be conducted by the BdI or a special administrator. Provisional valuations should be followed as soon as possible by an external valuation that includes a properly substantiated estimate of further losses.

3. Public interest has been defined as “necessary and proportionate for achieving one or more of the resolution objectives” stated in the Resolution Decree (in short, continuity of critical functions, safeguarding of financial stability, containment of costs borne by public finances, protection of depositors and investors covered by guarantee or compensation schemes and protection of customers’ funds and other assets). Resolution is only deemed to be in the public interest if compulsory administrative liquidation would not make it possible to achieve these objectives to the same extent.

*Source: IMF 2020.*