

## Case Studies: Banco Popolare di Vicenza and Veneto Banca

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**Abstract:** Banco Popolare di Vicenza and Veneto Banca were the biggest banks by total assets in Italy. Both banks were known for their good business relationships with local economic actors in Veneto. However, in 2017 the two banks went bankrupt and were sold to Gruppo Intesa Sanpaolo for 1 euro. This paper studies how and why two apparently solid banks failed in just a few years. The analysis of the bankruptcy of Veneto Banca and Banca Popolare di Vicenza contextualizes external macroeconomic factors with the widespread misconduct of the banks' management.

Veneto is not just the region of Venice known for its beautiful canals and Romeo and Juliet's balcony in Verona. Veneto has been the core of Italian industrialization; its small and middle-sized factories are the symbols of Italian economic growth. Veneto has one of the highest income per capita in Europe and its socio-economic development is comparable to the richest regions in Germany or the Netherlands.

The economic crisis has seriously hit the productive system of Veneto causing the failure of several companies and a fall in factory output. In this fragile macroeconomic context, Veneto's banks suffer low liquidity and high levels of impaired loans. Two local banks have been the key lenders to Veneto's enterprises: Banca Popolare di Vicenza and Veneto Banca.

Formerly known as a shining example of good business relationships between local banks and their territories, Banca Popolare di Vicenza and Veneto Banca have become the nightmares of thousands of savers and small investors. Banco Popolare di Vicenza's stock price fell from a peak of 62.5 euro in 2011 to 0.10 euro in 2015 while Veneto Banca's stock price dropped from a peak of 40 to 0.10 euro in 2016.

Recently, the Italian government announced an official plan to deal with Banca Popolare di Vicenza's and Veneto Banca's troubles. The two banks will be divided into "good" and "bad" segments. Banca Intesa Sanpaolo will acquire while the bad segments will be set aside in a bad bank, triggering a bail in. The Italian Finance Minister, Pier Carlo Padoan, announced a state financial intervention of 5 billion euro, which will be used to upgrade the capital of the two banks while 12 billion euro will be allocated to cover the non-performing loans of Veneto Banca and Banca Popolare di Vicenza. The state hopes to recover most of the non-performing loans in the long term. If this fails, the state will need to cover the unrecovered debt with public funds.

To understand the full scale of the crisis, we need to analyze the numbers of Banco Popolare di Vicenza and Veneto Banca. The two banks used to rank among the 15 biggest banks in Italy but in the last three years (2014-2016) the former recorded losses of more than 4,770 billion euro while the latter had 4,218 billion losses. The crisis had severe consequences for their employees. In 2012, Banco Popolare di Vicenza had around 5300 employees and 690 branches serving about 1.2 million clients. In the same year, Veneto Banca recorded 6200 employees, 586 branches and 7.3 million clients. The final agreement between Banca Intesa Sanpaolo and the Italian government involved firing 4000 employees and closing around 600 branches.

Like Monte dei Paschi di Siena's failure, the crucial question we need to explore is how and why two seemingly solid banks failed in just a few years. Have Banco Popolare di Vicenza and Veneto Banca been victims of external macroeconomic conditions? Or are their failures due to bad management and high risk financial operations? Of course, there is not only one factor to explain the crises of Banco Popolare di Vicenza and Veneto Banca. However, we can focus our analysis on two main pillars: (i) bad governance and (ii) the amount of non-performing loans.

### **1: Veneto, a regional crisis**

In 2008 Veneto accounted for 10% of the Italian GDP and it exported goods worth 38.3 billion euro in 2009, or 13.2% of Italian exports for the year.<sup>1</sup> Its economy is specialized in several primary activities, such as industrial machinery, metal products and electric equipment. The agricultural sector is also successful. Veneto produces a wide range of well-known and appreciated gastronomic products. For instance, Veneto's wine industry has the highest rate of export in the whole of Italy. Lastly, we cannot forget the tourist industry. Veneto attracts millions of Italian and foreign tourists to its territory. In 2009 it recorded 60.4 million tourists.

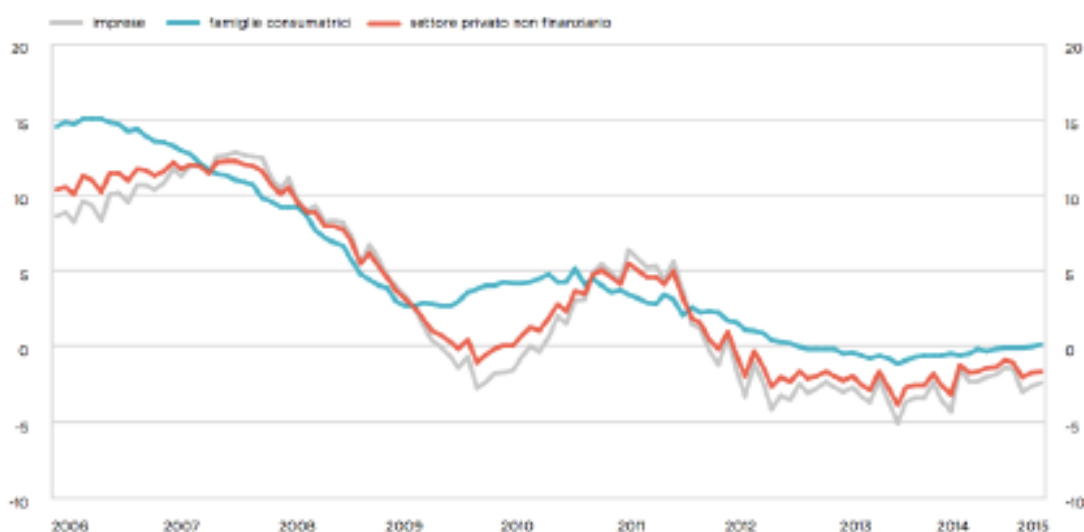
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<sup>1</sup> G. Tattara and B. Anastasia, *Come mai il Veneto e' diventato cosi' ricco? Tempi, forme e ragioni dello sviluppo di una regione di successo*, University of Venice 2003, p.3

The consequences of the economic crisis have been catastrophic for Veneto. Since 2007 it lost about 10% of its GDP. The number of families with serious financial constraints increased from 25.9% in 2008 to 34.9% in 2015. The rate of unemployment is equally problematic, rising from 4.59% in 2004 to 7.09% in 2015. Between 2009 and 2013, 9.800 small enterprises went bankrupt and closed their businesses. The number of enterprises registered in Veneto dropped from 509,377 in 2008 to 490,902 in 2014.<sup>2</sup>

Veneto's banking system has not performed well either. According to the CGIA<sup>3</sup>, Veneto's enterprises lost 10.8 billion euro of credit from the banks in the period 2014-2017, recording a decline of 10.7% against a national average of 6.8%. In 2014 Veneto's companies borrowed around 100,562 million euro, four years later they only received 89.777 million euro as loans. A comparison between Veneto's figures with the other Italian regions shows that Veneto performed particularly badly, ranking 2<sup>nd</sup> among the worst Italian regions by percentage change of credit to enterprises. Also Banca d'Italia's statistics show a clear downward trend of loans allocated in Veneto to families, enterprises and private non-financial entities.

**Graph 1: Trend of loans to families, enterprises and non-financial corporations in Veneto between 2006 and 2015**



This problem was not confined to Banca Popolare di Vicenza and Veneto Banca, there have been 11 other Veneto banks facing bankruptcy during the crisis years: Banco Popolare di Verona, CrediVeneto, Banca di Monastier e

<sup>2</sup> Relazione finale, in esecuzione del mandato conferito alla Commissione d'inchiesta sui gravi fatti riguardanti il sistema bancario in Veneto, 19 gennaio 2016, p. 123

<sup>3</sup> Associazione Artigiani Piccole Imprese Mestre, a local association of small-middle sized enterprises in Mestre (Veneto)

del Sile, BCC Euganea, Banca del Veneziano, Credito Trevigiano, BCC di Marostica, Banca Padovana BCC Atestina, Banca Marca and Banca Antonveneta. No other region has experienced such a catastrophic performance of its local banks.

Banco Popolare di Vicenza's and Veneto Banca's stories follow a similar pattern. They both were cooperative banks located in Veneto and they developed close relationships with Veneto's small and middle sized enterprises. According to a study by Il Sole 24Ore, Banco Popolare di Vicenza and Veneto Banca recorded 6% and 5% of the total bank branches located in Veneto, respectively.<sup>4</sup> When the economic crisis hit Veneto, the two banks were deeply affected by the negative macro-economic conditions of the region. However, the fragile economic context simply revealed years of bad management inside Veneto Banca and Banco Popolare di Vicenza. Italian magistrates are investigating the management of the two banks for several crimes: false accounting, obstruction of justice and insider trading. Management governed the two banks without respecting any financial ethics rules. They allocated credit to clients who were not eligible, neglecting to examine credit rating or risk models.

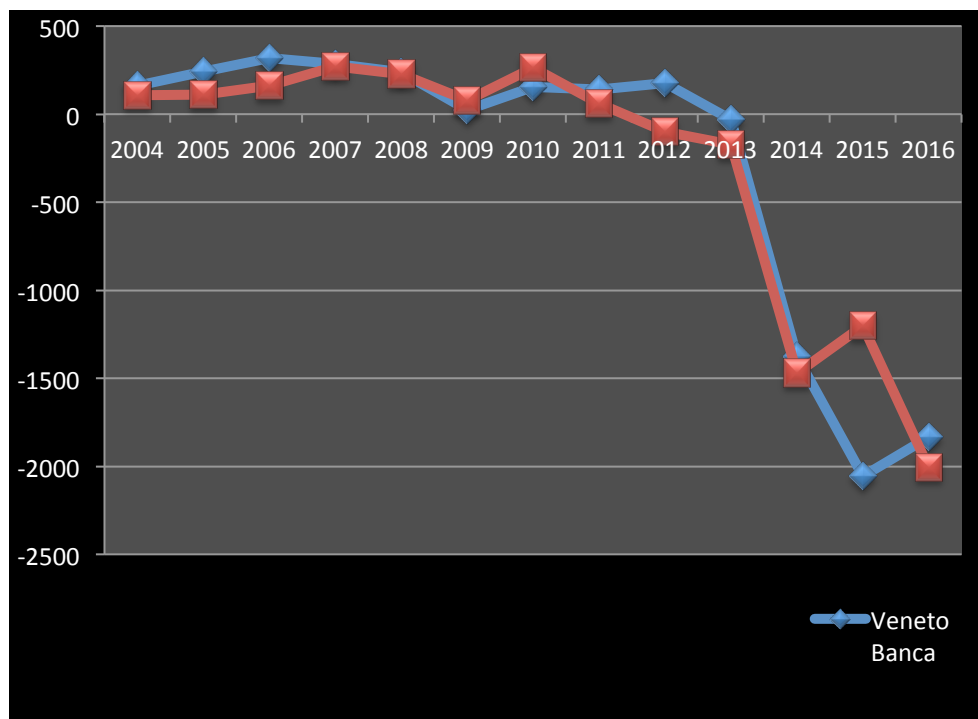
Their failure not only affected their depositors but also their investors. Banco Popolare di Vicenza had 100,587,829 shares which reached a maximum value of 62.50 euro. Its owners lost more than 6,276,680,529 euro when the price of its shares dropped to 0.10 euro. Veneto Banca recorded 124,486,701 shares which reached a maximum value of 40.75 euro. Its owners lost 5,060,384,395 euro when its shares price fell to 0.10 euro. Thousands of families and enterprises invested in Veneto Banca and Banco Popolare di Vicenza lost a great proportion of their savings.<sup>5</sup>

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<sup>4</sup> D. Barzagli, Banche venete, Intesa Sanpaolo ora leader del nordest. Superate Unicredit e Banco Bpm, 27/06/2017 in Citywire

<sup>5</sup> Veneto Banca and Banco Popolare di Vicenza Annual Reports.

**Graph 2: Pre-Tax Profits of Veneto Banca and Banco Popolare di Vicenza 2004 and 2016**



Source: Data elaborated by the author,  
Veneto Banca and Banco Popolare di Vicenza Annual reports

## 2: Banco Popolare di Vicenza, story of a failure (Part I)

Banco Popolare di Vicenza was founded in 1866 as the first cooperative bank created in Veneto. As an Italian cooperative entity, the bank had two fundamental rules directing its governance: (i) The one member, one vote principle. It did not matter how many shares a member owned, his vote counted as one, (ii) Any member could not own more than 1% of the total capital of the bank. The peculiar rules governing the Italian cooperative banks aimed to establish a positive relationship between the bank and its territory.

Before being forced to become a joint stock company by the Italian government in 2015, Banco Popolare di Vicenza had 116,797 shareholders in 2014. Analyzing its annual reports, the strong bond between the bank's activities and Veneto becomes clear. In 2014, 39% of the total loans granted by Banca Popolare di Vicenza were allocated in Veneto and 54.7% of the total loans were directed to non-financial companies.<sup>6</sup> 9.5% of its total clients were

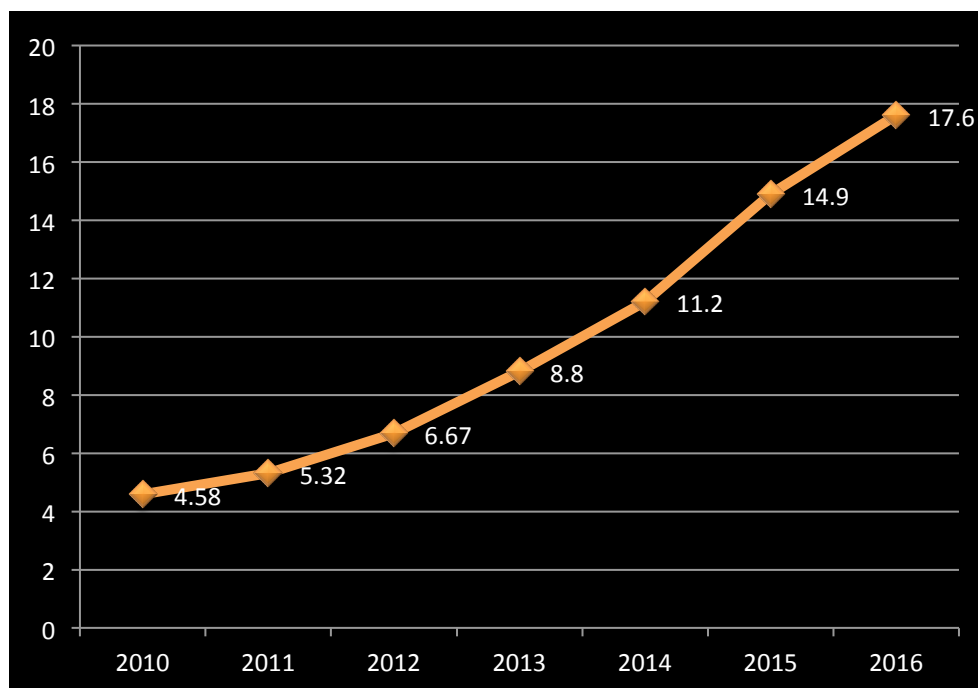
<sup>6</sup> Banco Popolare di Vicenza Annual Report 2015, p.89

composed of small and middle-sized enterprises. There was a clear tendency of the bank to be connected to Veneto's economic actors.

### 1.2: NPLs, misallocation of credits

Banco Popolare di Vicenza's percentage of NPL drastically increased between 2010 and 2016. In six years, the figure increased by 13.02%. As stated, there was a close relationship between the bank and local enterprises. Due to the economic crisis, many companies have been unable to pay their debts to Banca Popolare di Vicenza, leaving the bank with huge liquidity problems. However, the macroeconomic conditions of Veneto alone cannot explain such a large proportion of non-performing loans.

**Graph 3: NPL % between 2010 and 2016**



Source: Data elaborated by the author  
Banco Popolare di Vicenza Annual Reports

An Italian TV channel exposed the main borrowers of Banco Popolare di Vicenza as big Italian corporations and powerful businessmen rather than private clients or small to middle size firms. The list reveals 589 million euro of non-performing loans are attributable to just 30 borrowers representing around 29% of the total non-performing loans of the bank.

List of the 30 biggest borrowers of Banco Popolare di Vicenza:

<i>Monte Mare Grado Srl</i>	<i>57,8 million euro</i>
<i>Sevim Srl</i>	<i>30,3 million euro</i>
<i>Eudea Spa in liquidazione</i>	<i>29,8 million euro</i>
<i>Gruppo Lch (La Capiterlina)</i>	<i>29,5 million euro</i>
<i>Aree Urbane Srl in liquidazione</i>	<i>29,3 million euro</i>
<i>Partecipazione investimenti Real Estate</i>	<i>28,3 million euro</i>
<i>Consorzio per lo sviluppo industriale</i>	<i>25,8 million euro</i>
<i>Sean Autocaravan Toscana</i>	<i>21 million euro</i>
<i>Compagnia Sviluppo Immobiliare</i>	<i>19,7 million euro</i>
<i>Hotel Dolomiti Srl</i>	<i>19 million euro</i>
<i>Valore Spa in liquidazione</i>	<i>17,4 million euro</i>
<i>Acqua Marcia Immobiliare Srl</i>	<i>17,3 million euro</i>
<i>Tirrenia di Navigazione</i>	<i>16 million euro</i>
<i>Andromeda Srl</i>	<i>14 million euro</i>
<i>Nuovo Sviluppo Alberghiero Pratese</i>	<i>13,7 million euro</i>
<i>Borgosnia Srl</i>	<i>13,4 million euro</i>
<i>Cartiere Cariolaro Srl</i>	<i>13,4 million euro</i>
<i>Cozzi Parodi Holding Spa</i>	<i>13,3 million euro</i>
<i>Consta Spa</i>	<i>13 million euro</i>
<i>Patio Immobiliare Srl</i>	<i>12,3 million euro</i>
<i>Istituti Scolastici Card. Baronio</i>	<i>11,5 million euro</i>
<i>Terra Srl</i>	<i>11,5 million euro</i>
<i>Soicos</i>	<i>11,2 million euro</i>
<i>Gascom Spa</i>	<i>9,8 million euro</i>
<i>Finspace Italy Srl</i>	<i>10,5 million euros</i>
<i>Giudici Piero Bartolomeo</i>	<i>9,4 million euro</i>
<i>Immobiliare T51 Srl</i>	<i>18,7 million euro</i>
<i>Ginori Real Estate</i>	<i>9 million euro</i>
<i>Aeroterminale Venezia Spa</i>	<i>8 million euro</i>
<i>Zen International Spa</i>	<i>8 million euro</i>

Among these borrowers, are several influential business actors in the country: Mauro Zamparini through his company Monte Mare Grado or Francesco Bellavista Caltagirone with his company Acqua Marcia Immobiliare. It is interesting to note that Istituti Scolastici Cardinal Baronio di Vicenza, a private catholic school, owes 11.5 million to the bank.<sup>7</sup>

Banco Popolare di Vicenza's management needs to explain how it managed access to its loans. Lending money involves several risks. Any bank, before lending money, takes any single factor, which could potentially damage its investment, into consideration. In a document released to the bank's

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<sup>7</sup> W. Galbiati, Presiti facili e vigilanti miopi: così è nato il maxi-buco nelle banche venete, La Repubblica 24/06/2017

shareholders in 2016, the new management presented a case study, which showed the misconduct of the former administration. In 2001 the bank granted a loan of 20 million to Anpezo S.r.l. (which changed its name to San Marco S.r.l. few years later) to modernise an old hotel to house a new bank branch. Anpezo funded its business plan only on Banco Popolare di Vicenza's loan, it did not have any other form of liquidity. In 2011, to avoid San Marco's bankruptcy, Banco Popolare di Vicenza had to allocate additional funds to recapitalize San Marco. In sum, the bank not only granted a loan to a company unable to repay it but also invested more money to save that same company.

The direct responsibility of Banco Popolare di Vicenza's management is clear. Unethical behaviour was highlighted by the new management:

It has been proven that the bank granted loans of big capital to real estate and movable investments without checking the risk of the investments before. In addition, multiple loans were given to borrowers with negative ratings or without any ratings. It has been found the bank did not check the ability of borrowers to repay their loans often. It also happened that former employees and their companies received loans without respect for the credit rules.<sup>8</sup>

### **1.3: Bad Management and Illicit financial creativity**

Former Banco Popolare di Vicenza's management is morally guilty for the bank's bankruptcy. As shown in the previous paragraph, there was an inclination for unethical behaviour by the bank's previous administration. In addition to the immoral conduct, magistrates are investigating several managers for serious crimes, such as insider trading, obstructing of surveillance and false accounting. Italian attorney Cappelleri said: *"We have an organized structure (Banco Popolare di Vicenza) in which there were people who operated in a hierarchical structure to commit numerous crimes"*.<sup>9</sup>

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<sup>8</sup>Assemblea ordinaria degli azionisti 13 Dicembre 2016, Banca Popolare di Vicenza, *"È stato infatti accertato che la Banca ha fornito sostegno finanziario a investimenti immobiliari e mobiliari, pur a fronte di apporti di capitale, da parte dei beneficiari, nulli o, comunque, marginali, con la conseguenza di dover in tal modo sopportare l'intero rischio connesso. Inoltre, i finanziamenti sono stati di frequente concessi a soggetti sprovvisti di rating o con rating negativo, all'esito di istruttorie di tenore meramente descrittivo e spesso carenti di analisi sulla capacità di rimborso dei beneficiari o caratterizzate dall'assenza di idonee garanzie. Tali anomalie hanno interessato anche operazioni creditizie a favore di esponenti aziendali, ivi inclusi ex consiglieri di amministrazione. Sotto questo profilo, non possono quindi escludersi situazioni di violazione della disciplina in materia di conflitto di interessi."*

<sup>9</sup>Popolare di Vicenza. La procura indaga per associazione a delinquere, Corriere del Veneto, 01/03/2016" *ci troviamo di fronte ad una organizzazione strutturata, la Banca, all'interno della quale alcune persone avrebbero operato, con una struttura gerarchica e ben organizzata, per mettere a segno un numero indefinito di reati"* 1



Many small investors and shareholders of the bank lost thousands of euros due to Banco Popolare di Vicenza's bankruptcy. In June 2016 a small investor killed himself after seeing value of his shares fall from 500,000 euro in 2015 to 8,000 euro in 2016. Magistrates are investigating the trend of Banco Popolare di Vicenza's share price. Any "banco popolare" estimates its own share price during the annual shareholders' meeting. In the case of Banco Popolare di Vicenza, management constantly overrated the value of its shares. Up till 2011 the bank did not even ask for an independent auditor's opinion on which share price to settle!

In addition, judges have proved that managers promoted the so called "*finanziamenti baciati*": clients were forced to buy shares of the bank if they wanted to have access to credit. In other words, the bank granted loans to clients who would buy shares of the bank with the money received. In some documents it has come to light that Banco Popolare di Vicenza's salesmen were threatened with firing if they did not sell enough shares. This illegal procedure aimed to artificially increase Banca Popolare di Vicenza's capital.

According to Italian law, before selling high risk financial products (such as shares or subordinated products), clients need to be informed on the real risk of the products they are buying. In case of Banco Popolare di Vicenza, 59,000 shareholders' profiles were falsified to allow the bank to assign them financial expertise, which those shareholders' did not have.

The Italian magistrates are still investigating crimes and felonies. But it is clear there have been several violations that have led the bank to bankruptcy. In this context of widespread dishonesty, it is difficult not to notice the big role management misconduct played in bringing the bank down.

### **3: Veneto Banca, story of a failure (Part II)**

Veneto Banca was the second biggest bank in Veneto. In 2011 it ranked 11<sup>th</sup> in the top Italian banks by total assets. Veneto Banca was a cooperative bank founded in 1877 as Banco Popolare di Montebelluna. Over the years, its business expanded to foreign countries. In 2014, the bank had 65 branches abroad through four foreign owned subsidiaries located in Croatia, Romania, Moldova and Albania.

The story of Veneto Banca is sadly similar to Banco Popolare di Vicenza: from a solid regional cooperative bank to a business failure. In 2015, Veneto Banca had 550 branches in Italy and abroad, 29.6% of which were located in Veneto.<sup>10</sup> The bond between Veneto Banca and Veneto was particularly strong. Not only did 46.1% of its stockholders live in Veneto but 61.2% of

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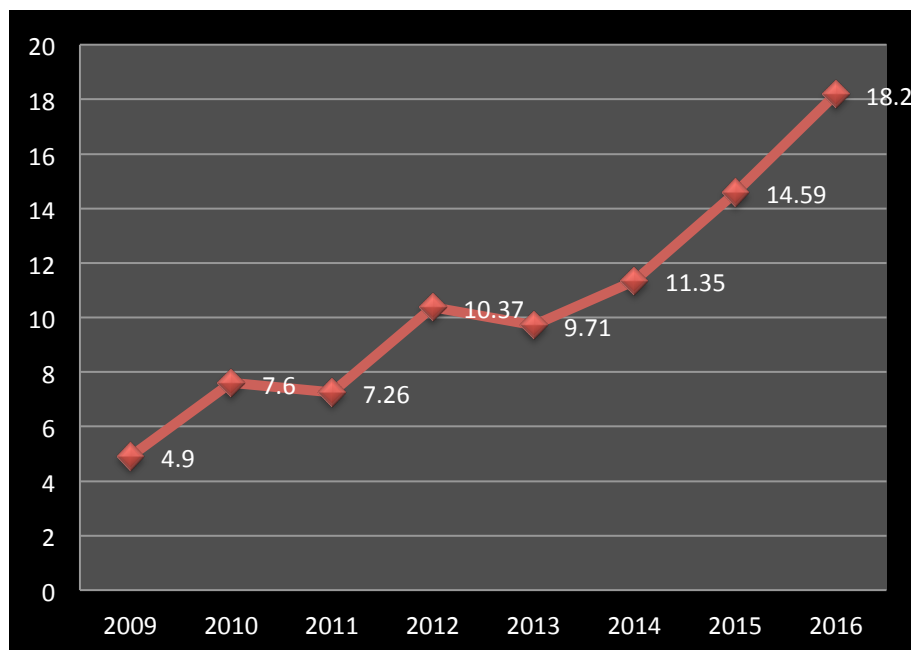
<sup>10</sup> Data elaborated by the author, Annual report 2014 Veneto Banca

them held shares for more than three years.<sup>11</sup> In addition, 94.1% of its stockholders were clients of the bank.

Similar to Banco Popolare di Vicenza, the bank experienced a sharp increase in NPLs. In 2006, the NPL percentage was 4.9% but it increased to 18.2% in 2016. NPL levels highly affected Veneto Banca's liquidity. As with Banco Popolare di Vicenza, Veneto Banca's insolvent borrowers' list was mainly due to large loans.

According to a partial list disclosed by an Italian newspaper, Veneto Banca's big borrowers were not private clients and small-middle size corporations but a great proportion of the bank's NPLs were due to large loans. Vittorio Casale, a real estate investor, owes more than 78 million euro to Veneto Banca. Francesco Bellavista Caltagirone, a famous businessman in Italy, has borrowed around 50 million euro and Veneto Banca has lent more than 50 million to the Boscolo brothers, owners of the Boscolo Hotels. Denis Verdini, an Italian politician close to Silvio Berlusconi, needs to repay a debt of 7.2 million euro.<sup>12</sup> It is clear that also in Veneto Banca's case, NPLs are mainly due to a misallocation of credit.

**Graph 4: NPL percentage between 2009 and 2016**



Source: Data elaborated by the author  
Annual report 2014 Veneto Banca

<sup>11</sup> Annual Report 2014 Veneto Banca, p.75

<sup>12</sup> W. Galbiati, Presiti facili e vigilanti miopi: così è nato il maxi-buco nelle banche venete, La Repubblica 24/06/2017

Veneto Banca's failure are a consequence of the exact same factors as Banco Popolare di Vicenza. Its management is under investigation for similar crimes to Banco Popolare di Vicenza's management. Its large percentage of NPLs is partially explained by the external economic conditions of Veneto. It also needs to be considered as a consequence of the practice of bad allocation of credit by the bank.

### **Conclusion**

Veneto Banca's and Banco Popolare di Vicenza's failure is currently costing around 20 billion euro to their 210,000 shareholders. The drastic fall in their share prices resulted in shareholders losing more than 11 billion euro. In addition, the banks lost about 4 billion euro in capital and their re-capitalization involved 4.9 billion euro. Many small local investors were among their shareholders. These people have lost their life savings.

Due to their deep relationship with Veneto's economic actors, their crises severely affected the economy of the whole region. The flow of money between the two banks and local enterprises was significantly reduced. Veneto Banca and Banco Popolare di Vicenza saw increases in NPL levels as several companies suffered the consequences of the Italian and the international economic recessions. In the meantime, the two banks decreased their allocation of credit as they were suffering low liquidity and poor performance.

However, the bankruptcies of Veneto Banca and Banca Popolare di Vicenza were not only caused by external macroeconomic factors but principally originated from widespread misconduct of their management. The economic crisis simply revealed how bad the two banks were managed over many years. Firstly, the incredible high level of NPLs of the two banks is explained only if we take into account the misallocation of credit. Managers of the two banks approved large loans to clients who were clearly unable to repay their debts and did not have any proper qualification for access to credit. Secondly, Italian judges are investigating several crimes committed by Veneto Banca's and Banco Popolare di Vicenza's management. Among them are: insider trading, obstruction of surveillance and false accounting.

Currently, Veneto Banca and Banca Popolare di Vicenza are domestically owned subsidiaries of Intesa Sanpaolo. It is still not clear how Intesa Sanpaolo will handle Veneto Banca and Banca Popolare di Vicenza. Veneto needs a strong and solid banking system, which provides credits to its economic actors. To foster a new economic growth in the region, Veneto's enterprises demand banks that will help with their financial needs. Intesa Sanpaolo is an international bank holding company that has business interests in several countries. How Intesa Sanpaolo deals with the local economy of Veneto and of its economic players will be worthy of note.

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