Intesa Acquisition of Assets in Veneto: Upside at No Cost

Yesterday, Intesa (A, Stable) announced it was taking over the good assets of Veneto Banca (not rated) and Banca Popolare di Vicenza (not rated). The two banks had been put in liquidation over the weekend following a failing or likely to fail determination by the ECB on June 23. We believe the terms of the deal are favourable to Intesa, which acquires a cleaned-up subset of the banks with no material impact on capital.

The deal is subject to the Italian Parliament approving the Decree Law on the liquidation of the two banks, and Intesa has the right to withdraw from the deal if the Decree is modified during approval process.

In its announcement, Intesa did not provide a full balance sheet for the acquired assets but disclosed its purchase of EUR 26.1bn in performing loans and EUR 4bn in performing, high-risk loans, plus EUR 8.9bn in financial assets and EUR 1.9bn in tax assets. It is also taking over c. EUR 25.8bn in deposits and EUR 11.8bn in senior debt.

In line with the conditions it had set out less than a week before, Intesa did not acquire any non-performing assets, and it has the right to re-sell the performing, high-risk loans it acquired if they turn non-performing before year-end 2020. Intesa will also be shielded (up to a maximum of EUR 1.5bn) from future claims arising from the two Venetian banks' previous commitments and litigations. It will also receive EUR 3.5bn in cash to offset the impact on its capital ratios from consolidating the acquired RWAs (which we estimate at EUR 28bn).

Moreover, Intesa will receive a cash contribution of c. EUR 1.3bn to cover restructuring costs, including branch closures and personnel reductions.

Overall, Scope believes that the downside risks for Intesa are limited, and more than offset by the positives. We believe Intesa will benefit from:

- A slight boost in market share, consolidating market leadership.
- The acquisition of clean assets for c. EUR 40bn (RWAs of EUR 28bn) and assets under management of c. EUR 10bn.
- Improved long-term profit-generating ability: The acquired portfolio will likely generate profits straight away, given the limited need for credit risk provisions. Using ROA and RoRWA benchmarks of 50bps and 100bps respectively (not far from Intesa's recently reported profitability), we estimate the assets could generate EUR 200m-280m in profits per year.
- The addition of EUR 3.5bn in equity at no cost, fully neutralising any impact on its CET1 ratio. In fact, we believe Intesa may even release part of this capital: we estimate the average RWA intensity of the acquired portfolios at 68%, which is very high for a parameter that is essentially clean.
- A chance to rationalise its own distribution and cost base in Veneto and Puglia as part of the integration.

Aside from the impact on Intesa, we believe the deal is positive for Italian banks' credit in two respects. On the one hand, it removes a material source of headline risk, which had been weighing negatively on market sentiment. On the other hand, it confirms that the Italian government has, for the time being, very little appetite for the politically unpalatable bail-in of senior debtholders.

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