Associazione Italiana Banche Estere

FOREIGN BANKS AND FINANCIAL INTERMEDIARIES IN ITALY

SUPPORT GIVEN TO THE ITALIAN ECONOMY IN 2021

July 2022

In collaboration with

CONSILIA business management

Highlights

29.1%	Domestic public debt owned by non-residents (end-2021)
81	Number of foreign banks operating in Italy (end-2021)
93%	Equity capital markets (market share held by foreign bookrunners, 2021)
91%	Debt capital markets (market share held by foreign bookrunners, 2021)
889	Assets under management by foreign banks and intermediaries (€ billion, end-2021)
77%	Syndicated loans (market share held by foreign bookrunners, 2021)
100%	Securitization (ABS and MBS, market share held by foreign bookrunners, 2021)
42%	Financial guarantees to support exports and internationalization of Italian companies (market share held by foreign intermediaries, 2021)
15%	Foreign banks' market share for credit

15%	Share of foreign players in trading in Euronext Growth Milan market (2021)
16%	Share of foreign banks and intermediaries in Italian factoring market (annual turnover, 2021)
54%	Share of foreign banks and intermediaries in Italian consumer credit market (cumulative flows, 2021)

Contents

Introduction

It gives me great pleasure to hereby present the 12^{th} AIBE Annual Report on the operating modes and the activities of foreign banks in Italy to our foreign bank members and to the financial community.

International financial markets are facing new uncertainties, new risks and new challenges after the pandemic. Past crisis have already underlined the critical issues of the Italian economic system, due to some historical weaknesses (the high level of public debt, the bureaucracy, the tax burden, labour costs). As reported in annual Aibe-Censis' survey, these factors still represent the major obstacles to the attractiveness of foreign investments. The current geopolitical context and the speed of changes impose new global challenges, and they require an efficient and modern ecosystem, to favor firms' competitiveness, financial intermediaries' robustness and to increase country's standing.

The proposals included in the Recovery Plan based on innovation, green transition, simplification of the Public Administration move in this direction.

The last year financial and economic trends were positive, a strong recovery after the pandemic: the presence of international financial intermediaries increased in most business lines, supporting firms' funding needs, internationalization strategies, economic recovery and green transition. The M&A Italian market showed a huge reprise and the comeback of big deals, where the presence of acquirors coming from abroad was relevant.

The market share held in loans to customers, Bank of Italy says, remained stable at about 15%, while the credit quality of foreign banks slightly improved. The share of securities held by foreign banks on the total held by the Italian banking system remained stable, showing a prevalence of Italian Government bonds.

Guido Rosa
AIBE President

Chapter I

The internationalization of Italy's economic and productive system

Major international forecasters were agreed that the outbreak of the war in Ukraine posed a risk to the economic outlook and to financial stability. Conditions in global financial markets have worsened, and several negative signals have been observed in recent months, with the raising of long-term interest rates, higher volatility in financial markets, fluctuations in commodity prices and continuing supply bottlenecks. Global growth, measured by the percentage change in GDP, was a projected 6.1% in 2021 (IMF, World Economic Outlook, April 2022), while a slowdown is expected in 2022 and 2023 (3.6%).

Data available for Spring 2022 suggest that global economic activity has been decelerating due to inflationary pressures, the effects of the war and changes to economic policies.

The risks to financial stability have increased in Italy too. The slowdown in economic activity can be seen by the most recent macroeconomic data: Italy's economy performed well in 2021, making a positive recovery after the long COVID-19 pandemic. GDP rebounded by 6.6%. Nevertheless, growth fell in the final quarter of 2021, and real GDP contracted in Q1-2022. The short-term outlook remains weak, due in part to high uncertainty regarding the economic repercussions of the military conflict between Russia and Ukraine. According to the European Commission's estimations, real GDP growth in Italy is forecast to slow to 2.4% this year, with the return to pre-crisis output levels put off until the second half of 2022. Private and public consumption, as well as exports/imports, are expected to slow down. With regard to prices, rising energy and food prices will contribute to take inflation to almost 6% in 2022, and further price pressures can be expected in the months to come (European Commission, Spring 2022 Economic forecast for Italy).

In 2020 the pandemic crisis increased Italian public debt by about 20 percentage points, reaching 155.3% of GDP. Debt is expected to stabilize at 150.8% in 2021, while – according to the Government's "Economic and Financial Document" – this ratio is expected to decrease to 141.4% by 2025. Nevertheless, with the outbreak of the war, Italy and other peripheral countries in southern Europe (i.e., Greece, Portugal, and Spain) have seen an increase in the spreads of 10-year bonds against German bunds, exceeding pre-pandemic levels. The widening of these spreads, in combination with a general rise in interest rates, may contribute to rising public debt interest costs. At the same time, following unprecedented public support to the economy during the pandemic to reduce the debt-to-GDP ratio, the full and effective implementation of the National Recovery and Resilience Plan (NRRP) will be crucial for the country (Bank of Italy, Financial Stability Report, 1/2022). The OECD's analysis stresses that critical structural reforms and investments, to support the transition towards a greener, digitized economy, are also required, while legislative and administrative reforms would help to boost economic and social growth (OECD Economic Surveys: Italy 2021).

The A.T. Kearney 2022 FDIs Confidence Index shows Italy occupying 7th spot in the ranking (8th in 2020). The report, updated with data and information available in January 2022, highlights that the net score (the difference between the more optimistic 3Y economic outlook compared with a year ago and the more pessimistic outlook) was 25 percentage points (17 in the previous issue of the report). Italy is placed in the bottom positions of this special ranking, with Canada and Japan leading the way, with net scores of 43 and 39 respectively. Investors' responses included in this report suggest that the outlook for Italy is more negative than for Germany (38 p.p.) and France (31).

The attractiveness of a country is often measured by inflows of Foreign Direct Investments (FDIs). Even if this indicator represents only a partial view, it is commonly used in international rankings and comparisons. While Italy is still the 8th largest economy in the world, quite diversified and with several areas of excellence recognized all over the world, it continues to attract less FDIs than many other European industrialized nations. Italy ranks 58th out of 190 countries in the 2020 World Bank Doing Business Report, and 52nd out of 180 countries in Transparency International's 2020 Corruption Perception Index (US Department of Commerce, International Trade Administration).

A worldwide overview on FDIs is offered by the annual World Investment Report (WIR), released by UNCTAD. The 2021 report highlights, as expected, that in 2020 global flows of FDIs were severely impacted by the pandemic: worldwide flows fell from $1,530 billion to $999 billion (–35% YoY), the lowest value since 2005.

Inflows towards the EU28 area amounted to around $122.9 billion (–71%). Italy was no exception. The annual amount of inward FDIs collapsed from $18.1 billion to $–0.4 billion, due to negative intracompany and negative equity investments (UNCTAD, WIR 2021). At the end of 2020, the stock of inward FDIs reached $486 billion (+9% YoY), half of that of France and just 4.2% of EU's stock, and 1.2% of world stock.

Italy's cumulative inward FDIs is well below the EU average, due largely to well-known structural problems. To raise these levels, specific targets and missions have been listed in the National Recovery and Resilience Program (NRRP), around three major strategic axes (digitization and innovation, ecological transition and social inclusion), to help Italy's economy recover after the COVID-19 pandemic and to address these structural weaknesses.

According to the Global Attractiveness Index 2021 released by The European House-Ambrosetti, Italy is ranked 20th (out of 148 countries), two places below the GAI 2020, also a partial consequence of a change in the methodology adopted. There are however some positive signals. It is worth remarking that the country's overall score increased (from 59.50 to 61.32 out of 100), and the "attractiveness" gap with Germany and France has narrowed. Moreover, Italy has one of the best equilibria among the analyzed parameters regarding positioning (attractiveness), dynamism, sustainability and growth expectations.

The EY Europe Attractiveness Survey 2022, released at the end of May, highlights the fact that European markets remain an attractive destination for FDIs in the longer term. Business projects rose in number by 5% after the huge drop (–13%) in 2020. Italy ranked 7th (207 business projects, +83% YoY), while the market share remains low (4% of EU FDIs in 2021). The top three sectors mainly impacted by foreign business projects are software and IT services, transportation and logistics and business services, while the top three investing countries are US, Germany and France.

According to ISTAT (Italian National Statistics Institute), at the end of 2019 15,779 foreign affiliates were based in Italy (Tab. 1). Compared with the previous year, the number of multinational enterprises (MNEs) operating in Italy grew by 260 units (+1.7%), especially in Industry (+147 firms, +3.3% YoY).

Data confirmed that the long-term growth in the presence and economic contribution of MNEs is continuing. Compared to about a decade ago (end-2010), the number of MNEs had risen by 2,038, both in Industry (+22%) and in Services (+12%). Moreover, the number of employees (+28%) and economic indicators, turnover and value added, show a relevant growth rate. Between 2010 and 2019 (Fig. 1) turnover rose from € 468 to € 624 billion (+33%), while value added increased from € 93 to € 134 billion (+44%).

Over the period 2009/19, while the total number of companies operating in Italy suffered a loss of about 1% of employees, MNEs increased their workforce by 24%, or about 289,000 units; over the same time horizon, they contributed 30% to the increase in value added[1].

In 2019 the turnover of foreign-controlled companies showed a larger increase compared to that of domestic companies (+5% against +0.8%). MNEs make up only 0.4% of all companies operating in Italy, while more significant is their contribution to the Italian economy: MNEs employ about 9% of employees, and generate 19.3% of turnover and 16.3% of value added. Moreover, foreign-controlled companies are responsible for 26% of all R&D expenditures.

The average size of MNEs, measured in terms of workforce, is much higher than that of domestic companies (95.8 employees versus 3.7 employees).

The top ten countries of origin of foreign multinationals by number of subsidiaries in Italy account for 86.6% of employees and more than 80% of turnover and value added. The United States continues to be the leading country, with the highest number of workers (about 305,000), followed by France (289,000) and Germany (203,000).

Fig. 2 highlights major profitability indicators for both MNEs and domestic companies in 2019. As in previous years, MNEs continued to maintain a competitive advantage in terms of value added per capita (€ 88.8 thousand versus € 52 thousand). Even if the unit labour cost is higher, the efficiency ratio (unit labour cost divided by value added per capita) is very favorable for MNEs (170% versus 129%). R&D expenditures per capita for MNEs is 3.7 times higher than those recorded by domestic companies.

According to the ISTAT survey, the majority of MNEs operating in Italy are planning to consolidate their presence in Italy, even though without any significant change in size or in business models. The survey also analyzed economic, social, and systemic factors driving future strategies. MNEs operating in Industry sectors ascribe greater importance to the presence of specialized knowledge or technical skills of the workforce, managerial capacity and adaptability to change, while foreign-controlled firms operating in Services highlight factors relating to the monitoring of the domestic market. Both Industry and Services firms state that the quality of infrastructures, taxation levels or tax incentives have little or no influence of future strategies and economic planning.

[1] LUISS-Confindustria, “Le imprese estere in Italia e i nuovi paradigmi della competitività”, Osservatorio Imprese Estere, March 2022.

	2010		2015		2019	
	Value	%	Value	%	Value	%
Number of foreign-controlled firms	**13,741**	**100**	**14,007**	**100**	**15,779**	**100**
Industry	3,716	27.0	4,032	28.8	4,548	28.8
Services	10,025	73.0	9,975	71.2	11,231	71.2
of which: financial and insurance activities	*541*	*3.9*	*562*	*4.0*	*878*	*5.6*
Number of employees	**1,184,539**	**100**	**1,257,209**	**100**	**1,511,190**	**100**
Industry	448,733	37.9	450,023	35.8	525,255	34.8
Services	735,806	62.1	807,186	64.2	985,935	65.2
of which: financial and insurance activities	*65,490*	*5.5*	*64,145*	*5.1*	*68,432*	*4.5*
Turnover	**468,046**	**100**	**529,574**	**100**	**624,167**	**100**
Industry	193,688	41.4	223,325	42.2	246,096	39.4
Services	274,358	58.6	306,249	57.8	378,071	60.6
Value added	**93,482**	**100**	**104,093**	**100**	**134,199**	**100**
Industry	40,465	43.3	43,596	41.9	51,621	38.5
Services	53,017	56.7	60,497	58.1	82,578	61.5

Tab. 1 Main data relating to foreign-controlled enterprises operating in Italy (end-year data, monetary values in € million) – Source: elaboration of ISTAT data

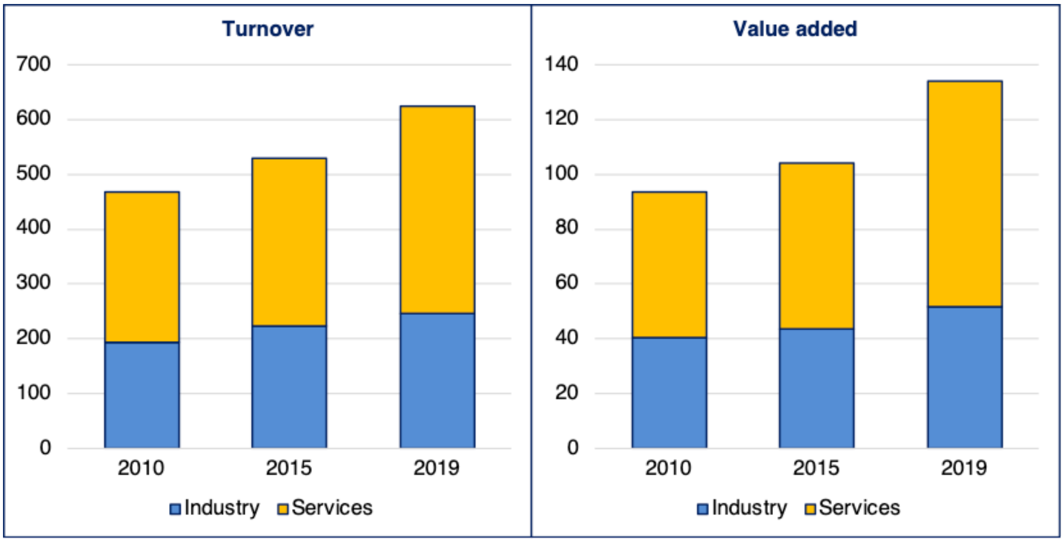


Fig. 1 Turnover and Value added of MNEs in Italy (€ billion) – Source: elaboration of Istat data

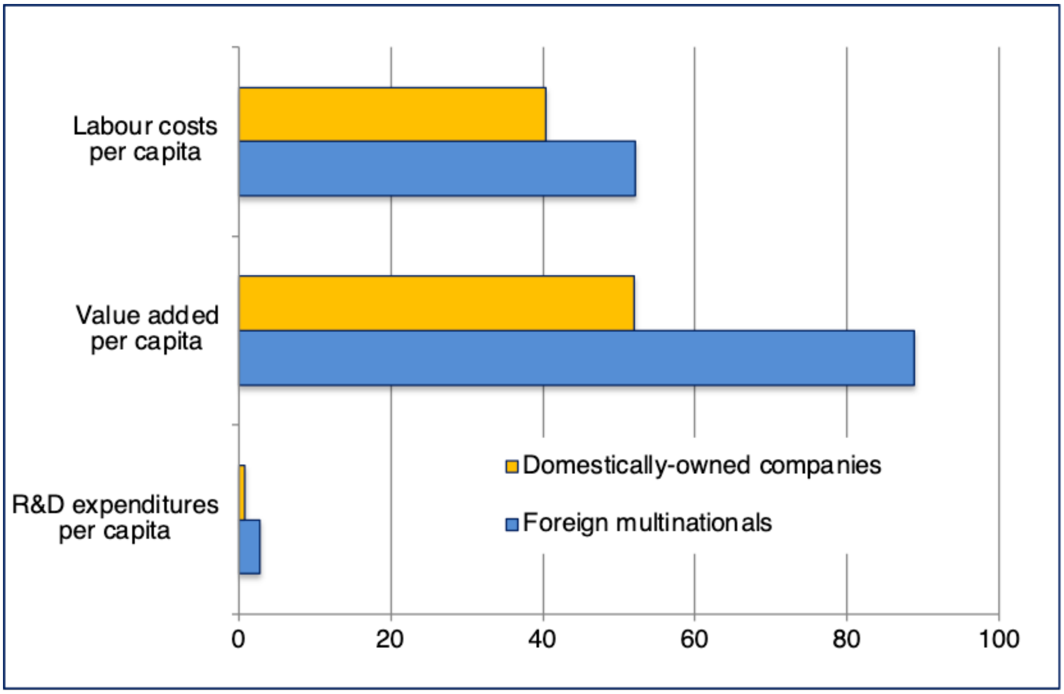


Fig. 2 *Domestically-owned firms and foreign multinational firms in Italy: comparison of performance data (amounts in € thousands, 2019) –*
Source: elaboration of ISTAT data

Chapter 2

Italian public debt and external debt

According to the Bank of Italy's Statistical Database (BDS), Italy's gross public debt stood at € 2,677.9 billion at the end of 2021, 4.1% higher than at the end of 2020. Increases were concentrated in the first half of the year (+€ 122.7 billion). At the end of March 2022, a further increase in Q1-2022 was observed (+2.9% compared with end-December 2021).

83% of the gross public debt outstanding at the end of 2021 was in the form of public securities. This percentage has remained stable in recent years. In 2021 the change in the stock of public securities grew by about 3.9%, or € 39.9 billion.

Over the period 2015/21 the share of public debt and the share of Government securities held by non-residents were volatile, due to macroeconomic scenarios and changes in the attractiveness of Italian public securities. During the last year, the share of public debt held by foreign investors fell by less than 1 percentage point (from 29.9% to 29.1%), the negative change concentrated in the second half of the year. Similarly, the share of Government securities held by non-residents fell by about 2 percentage points (from 32.5% to 30.6%, Fig. 3).

As reported by the Bank of Italy, the majority of sales of Italian government bonds by non-residents was concentrated in the second half of last year, following growing consensus about the normalization of monetary policy, expected to be more restrictive in coming months. Nevertheless, it is worth noting that non-resident investors have kept their overall exposure to Italian securities (private and public issuances) unchanged. A switch in composition by issuing sector is, however, evident. According to Bank of Italy data, purchases by Eurosystem were higher than the Treasury's net issuances, and net sales of public securities (€ 27.5 billion) were balanced by investments in bonds issued by the non-banking private sector (€ 29 billion).

In the first two months of this year the stock of securities held by non-residents fell by about € 7.9 billion, reducing their share to 29.7%, the lowest value recorded since the beginning of this century, and about 22 percentage points lower than the highest share, recorded in mid-2008.

The Bank for International Settlements (BIS) collects regular statistics on international banking, based on a sample of 24 reporting countries, on a quarterly basis.

After the huge growth in 2020, further to the public response to the pandemic, in 2021 Italian external debt fell by about $ 40 billion, from $ 785 to $ 744 billion (–5%), although changes were quite diversified in various clusters. Public sector investments went down from $ 314 to $ 279 billion (–11%), while the external exposure of domestic banks grew by about 10%, from $ 68 to $ 75 billion.

The highest portion of this external debt was reported by European banks: about $636 billion (–5%), 86% of the total. The share was stable compared with recent years.

Analyzing the country of origin of investors, France, Spain, Japan, Germany, and United States are seen to be the main holders of Italian external public debt (Tab. 2). According to BIS data, the "top 3" countries held about $193 billion of debt, making up 69% of total external public debt, slightly up on last year (by 1.3 percentage points), or two-thirds of the total, quite stable over recent years.

With reference to external private debt, BIS data are broken down into the banking and non-banking sectors. The banking sector's debt positions, amounting to about $75 billion, grew by 10% last year, reaching a new peak over the past three years. The stock at the end of 2021, however, remained lower than the banking sector's debt at the end of 2015, with an overall fall of about 14%. Most of this debt (80%) is held by European banks, mainly located in France, Spain and Germany. In 2021 the change for the non-bank private sector was negative, with a drop of about $10 billion (–2.5%). This stopped the upward trend reported over the period 2015/20. European banks remain the leading holders of debt, with about 86% of the total market, mainly from France, Germany, and Spain.

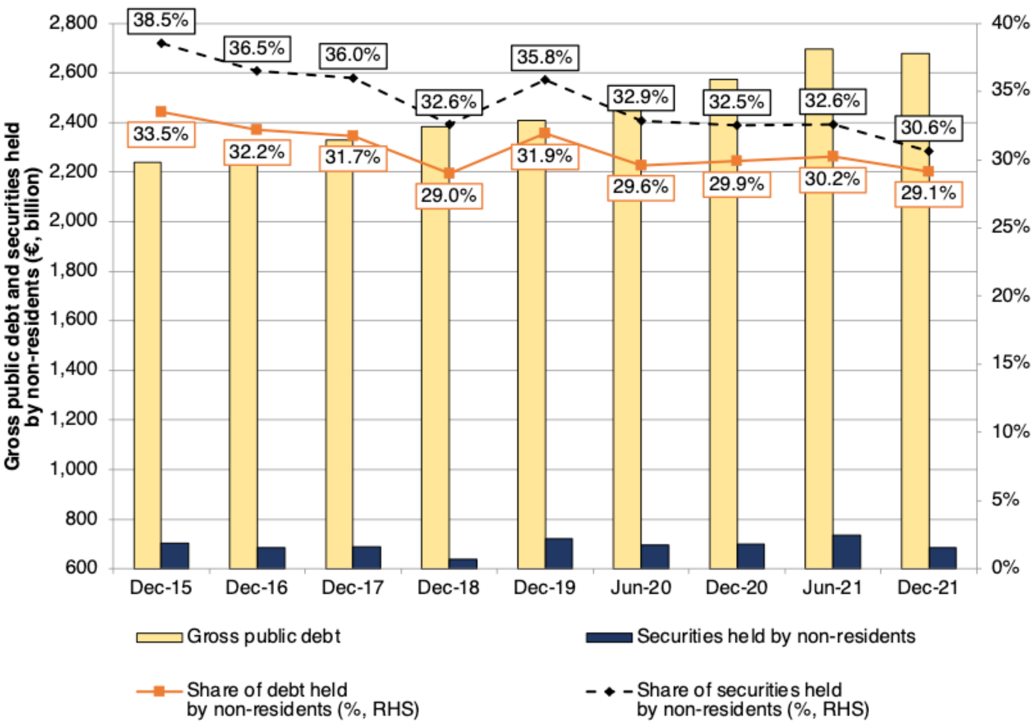
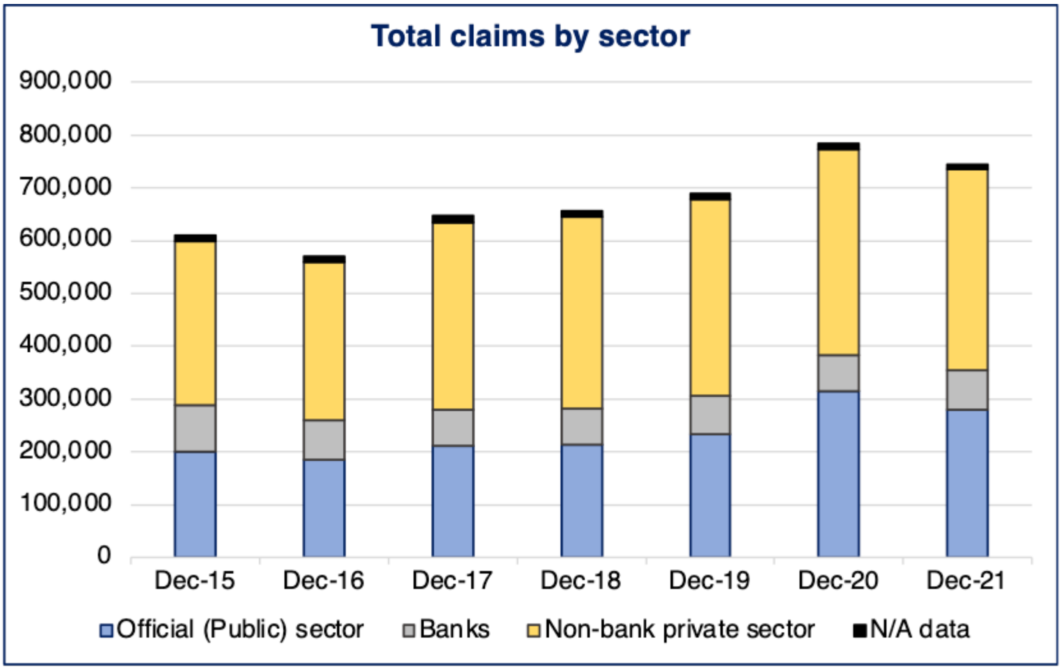


Fig. 3 Recent Italian public debt trends and shares held by non-residents (amounts in € billion, % on right-hand scale, RHS) – Source: elaboration of Bank of Italy data, Statistical Database (BDS)



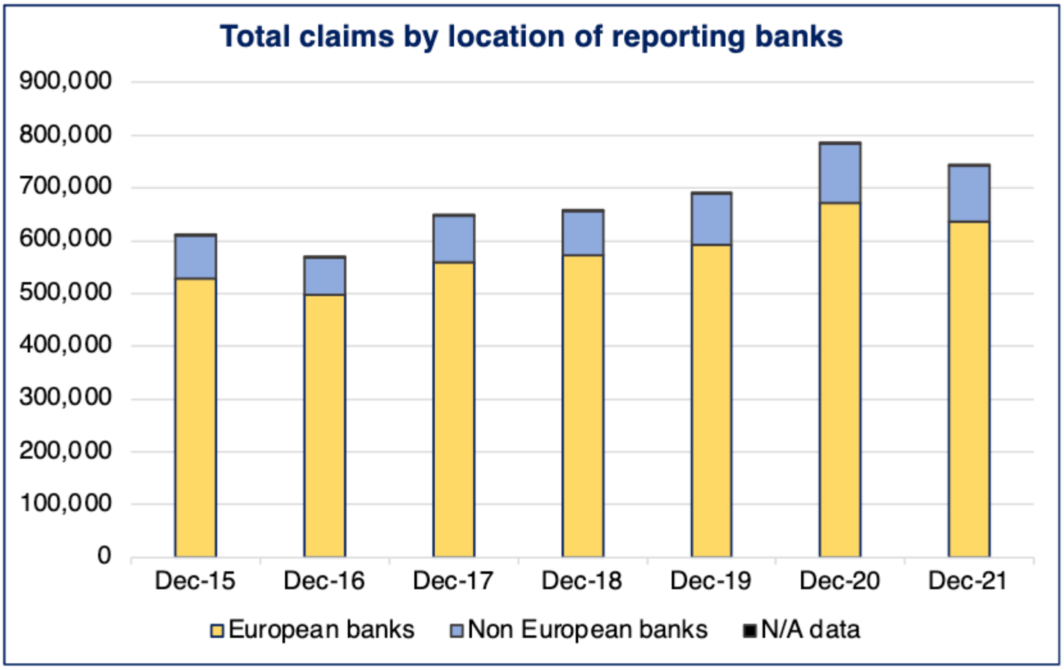


Fig. 4 *Public and private debt held by foreign countries ($ million) – Source: elaboration of BIS Consolidated Banking Statistics*

Countries	Dec-15		Dec-18		Dec-19		Dec-20		Dec-21	
	Value	%	Value	%	Value	%	Value	%	Value	%
France	57,665	28.7	63,119	29.5	65,590	28.1	101,037	32.1	90,973	32.6
Spain	31,340	15.6	45,886	21.5	51,179	21.9	70,106	22.3	61,472	22.0
Japan	22,089	11.0	21,523	10.1	26,447	11.3	42,032	13.4	40,594	14.5
Germany	36,555	18.2	37,545	17.6	36,349	15.6	37,075	11.8	36,617	13.1
United States	16,239	8.1	17,538	8.2	24,065	10.3	27,337	8.7	18,431	6.6
Switzerland	7,244	3.6	5,358	2.5	4,117	1.8	5,182	1.6	8,068	2.9
Greece	109	0.1	2,153	1.0	2,849	1.2	6,995	2.2	7,261	2.6
Belgium	7,094	3.5	3,380	1.6	5,138	2.2	2,908	0.9	2,185	0.8
Austria	2,354	1.2	1,567	0.7	1,384	0.6	1,901	0.6	1,194	0.4
Ireland	1,616	0.8	1,495	0.7	971	0.4	460	0.1	408	0.1
Other countries	18,362	9.2	14,188	6.6	15,531	6.6	19,308	6.1	12,018	4.3
Total	**200,667**	**100**	**213,752**	**100**	**233,620**	**100**	**314,341**	**100**	**279,221**	**100**

Tab. 2 Total amount of external public debt by holder ($ million, outstanding debt) – Source: elaboration of BIS Consolidated Banking Statistics

External private debt	Dec-15	Dec-18	Dec-19	Dec-20	Dec-21
European banks	68,787	50,516	57,928	55,326	59,800
Non European banks	15,559	13,666	12,222	11,826	13,656
N/A data	3,262	2,873	1,975	1,185	1,536
Total banking sector	**87,608**	**67,055**	**72,125**	**68,337**	**74,992**
European banks	265,384	311,412	319,003	339,342	327,855
Non European banks	25,632	27,960	32,264	30,654	33,504
N/A data	20,154	25,465	22,120	21,388	20,352
Total non-bank private sector	**311,170**	**364,837**	**373,387**	**391,384**	**381,711**

Tab. 3 Composition of external private debt (banking sector and non-banking private sector outstanding debt, $ million) – Source: elaboration of BIS data, Consolidated Banking Statistics

Chapter 3

Some structural data on foreign banks in Italy

3.1 Trends for foreign banks and branches

According to the Bank of Italy's Statistical Database, at the end of 2021 there were 456 banks operating in Italy, 81 of which from abroad.

As summarized in Tab. 4, the total number of banks operating in Italy and the total number of branches decreased significantly in the last decade, as a result of at least two different phenomena: first of all, the digital transition and fintech evolution; secondly, several M&A deals and consolidation process that involved both large/medium banks and mutual banks.

Over the same time frame, the number of foreign banks' branches operating in Italy dropped from 296 to 126, mainly because of the transition from "physical" branches to remote and digital platforms. At the end of December 2021, non-resident banks represent 17.8% of the total, with a quite constant growth in the last decade, and account for about 0.6% in terms of total number of branches, stable over recent years.

According to the Bank of Italy's Statistical Database (BDS), as at the end of 2021, 74 of 126 foreign banks were in Lombardy, all of them in the Metropolitan City of Milan.

Year	Banks and branch networks in Italy					
	Banks operating in Italy		Foreign banks			
	Number of banks	Number of branches	Number of banks	Number of branches	% on number of banks	% on number of branches
2010	760	33,663	75	296	9.9	0.9
2011	740	33,607	78	318	10.5	0.9
2012	706	32,881	78	325	11.0	1.0
2013	684	31,761	80	260	11.7	0.8
2014	664	30,740	80	252	12.0	0.8
2015	643	30,258	81	254	12.6	0.8
2016	604	29,027	83	171	13.7	0.6
2017	538	27,374	79	165	14.7	0.6
2018	505	25,404	79	159	15.6	0.6
2019	485	24,311	78	134	16.1	0.6
2020	474	23,481	82	135	17.3	0.6
2021	456	21,650	81	126	17.8	0.6

Tab. 4 *The branch networks of domestic and foreign banks in Italy (2010/21, end-year data) – Source: elaboration of Bank of Italy data, Statistical Database (BDS)*

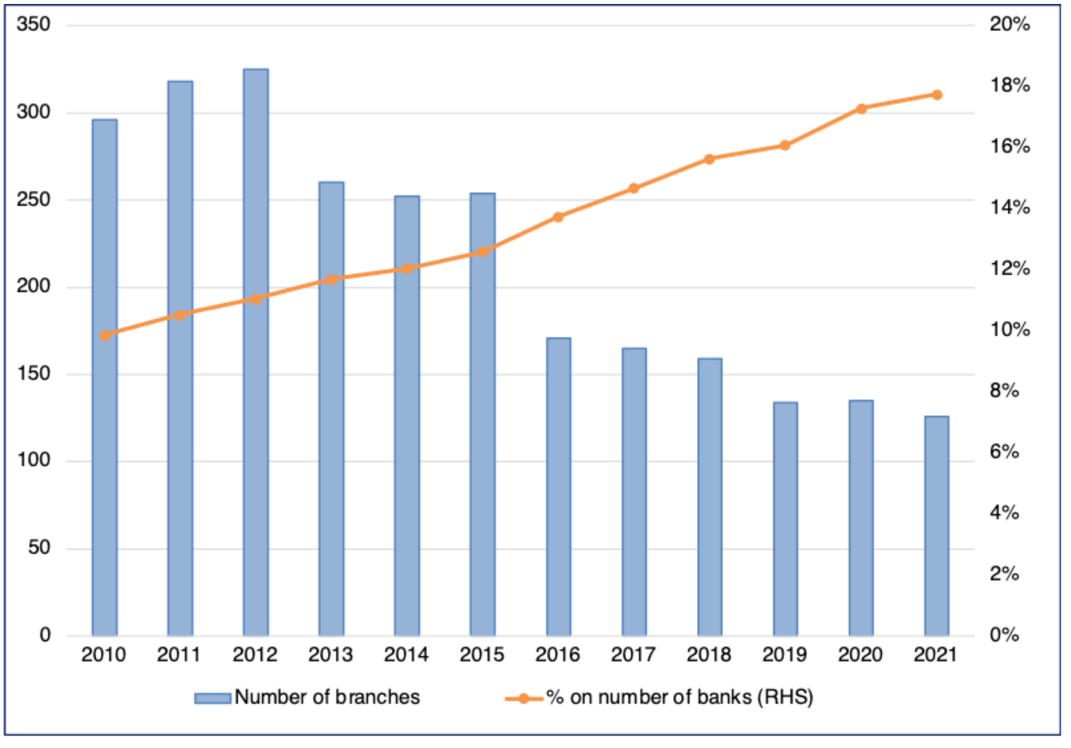


Fig. 5 *Recent trend in the number of foreign bank branches in Italy (2010/21, end-year data) – Source: Own elaboration of Bank of Italy, Statistical Database (BDS)*

3.2 Structural data on foreign banks in Italy in 2021[2]

At the end of 2021, the Italian branches of foreign banks numbered 81 (vs. 82 at the end of 2020), of which 73 branches of EU banks and 8 branches of third-country banks. At the same date, Italian subsidiaries of foreign significant banks were 11[3]. Foreign banks are mainly based in Northern Italy (90% of branches and 73% of subsidiaries), in particular in Milan. The parent companies of foreign EU branches are largely established in France (32%), Germany (25%), Luxembourg (15%) and The Netherlands (8%). The parent companies of third-country branches are mainly located in the USA (2) and Japan (2). Subsidiaries belong to French (7), German (2) and Spanish (2) banking groups.

In 2021, 5 foreign branches closed or turned into other financial intermediaries: 3 for the completion of the post Brexit restructuring and 2 due to internal group reorganization. On the other hand, 4 branches opened, 2 of which are focused on the Fintech business.

The network of branches and subsidiaries slightly decreased (–1.2% on a yearly basis), mostly due to one specific branch which reduced its presence (12 of its 19 agencies were closed). About 80% of the branches have headquarters only. As to subsidiaries, the dispersion of number of agencies is significant (from 1 to over 700), with 70% of the agencies belonging to the two biggest subsidiaries.

At the end of 2021 the share of total assets held by foreign banks was equal to 13.1% of the Italian banking system, slightly lower than 2020 (13.4%), due to the decrease of branches' share (from 6.2% to 5.8%); the subsidiaries' share is steady (7.2%). The size of both branches and subsidiaries continues to be highly spread in terms of total assets (branches from 0.9 million to 42 billion; subsidiaries from 462 million to 110 billion) and number of employees (from 2 to 828 for branches and from 28 to 10,158 for subsidiaries). The total assets average is slightly lower (€ 2.9 billion vs € 3.1 billion) due to more branches with total assets under 1 billion (59% vs 56%). In December 2021 the number of employees decreased by 2.5% on a yearly basis.

At the end of 2021, foreign banks' market share for the loans to customers remained stable (15.1% vs. 15.0%, Fig. 6) compared to the previous year for both branches and subsidiaries; the latter continue to grant almost two thirds of the loans of foreign banks. As a whole, "other loans" and "mortgages" showed the most significant growth, in line with the banking system; factoring accounted for the largest decrease. Also in 2021, sector composition did not show any significant variation: households (43.9% of total loans) and non-financial corporations (25.8%) remained the predominant type of clients of foreign banks.

The credit quality of foreign banks slightly improved in 2021 as the gross percentage of bad loans to customers decreased (from 3.6% to 3.4%), mainly driven by subsidiaries (from 4.5% to 3.3%). Nevertheless, subsidiaries show a higher share than the Italian banking system (2%). The ratio of branches waned from 1.8% to 1.5%.

At the end of 2021, the share of securities held by foreign banks on the total held by the Italian banking system remained stable at approximately 3%. The portfolio composition shows the prevalence of Italian government bonds, albeit their share decreased on a yearly basis (from 75% to 67%), driven by the reduction in the amount of government bonds held by branches (Fig. 7).

The customer deposits' market share for foreign banks increased (from 10.5% to 10.8%, Fig. 8), thanks both to branches (from 3.6% to 3.8%) and subsidiaries (from 6.9% to 7.0%). The share of foreign banks' interbank deposits on the entire banking system decreased (from 31.2% to 28.7%), driven mostly by branches (from 20.8% to 18.8%, Fig. 9) which hold almost double the amount of interbank deposits than subsidiaries. The market share of the securities issued by foreign banks increased (from 5.4% to 6.1%, Fig. 10) thanks to the subsidiaries' activity. The new issues stood out from the overall decline observed in the Italian banking system (–4%).

[2] This paragraph has written by Valentina Riviera and Rosa Alba Miceli, Division of Banking Supervision, Foreign Banks, Bank of Italy, Milan offices. The views expressed are those of the Authors and do not necessarily reflect those of Bank of Italy.

[3] All the data in this report refer only to Italian subsidiaries of foreign banks qualified as significant institutions within the Single Supervisory Mechanism (SSM).

	Dec. 31, 2020		
	Branches	Subsidiaries (b)	Total
Loans to customers (a)	91,486	179,274	270,760
Gross bad loans	1,724	8,365	10,089
Total assets	243,278	278,828	522,105
Deposits from custormers	67,689	129,847	197,537

	Dec. 31, 2021		
	Branches	Subsidiaries (b)	Total
Loans to customers (a)	94,307	182,100	276,407
Gross bad loans	1,434	6,310	7,744
Total assets	235,410	292,417	527,827
Deposits from custormers	76,847	139,677	216,524

	Annual change (2020/21, %)		
	Branches	Subsidiaries (b)	Total
Loans to customers (a)	3.1%	1.6%	2.1%
Gross bad loans	-16.8%	-24.6%	-23.2%
Deposits from customers	-3.2%	4.9%	1.1%
Total assets	13.5%	7.6%	9.6%

Tab. 5 Main aggregates for foreign banks operating in Italy (€ million) – Source: Bank of Italy, Supervisory Statistics

Note (a) The amount is net of bad loans; (b) Subsidiaries of significant banks.

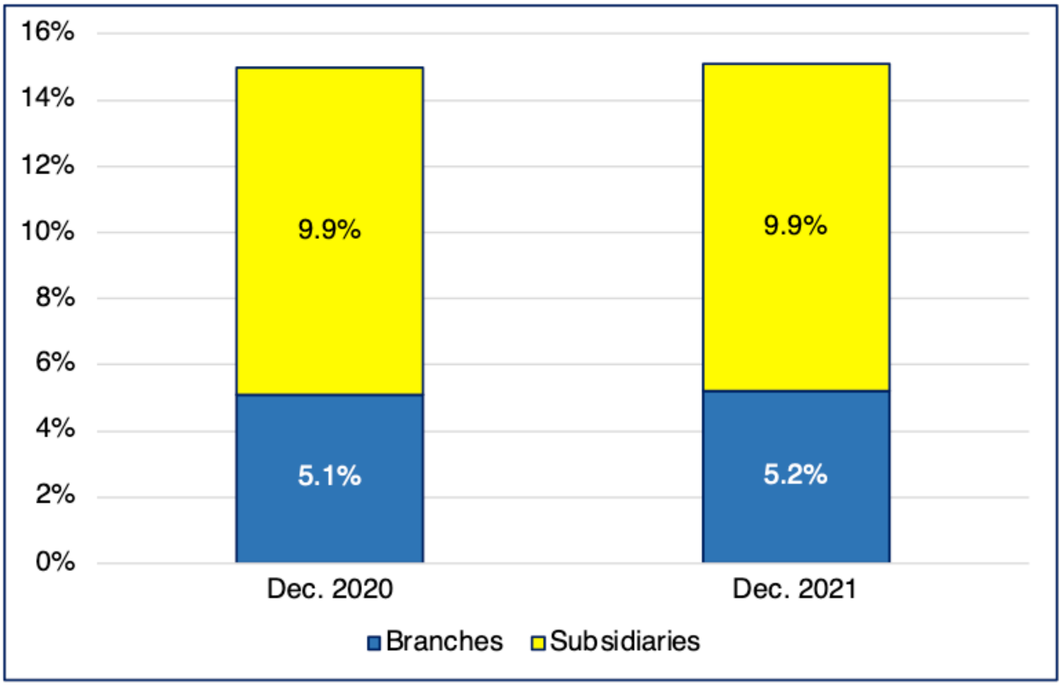


Fig. 6 *Foreign banks' market share for loans to customers (%) – Source: Bank of Italy, Supervisory Statistics*

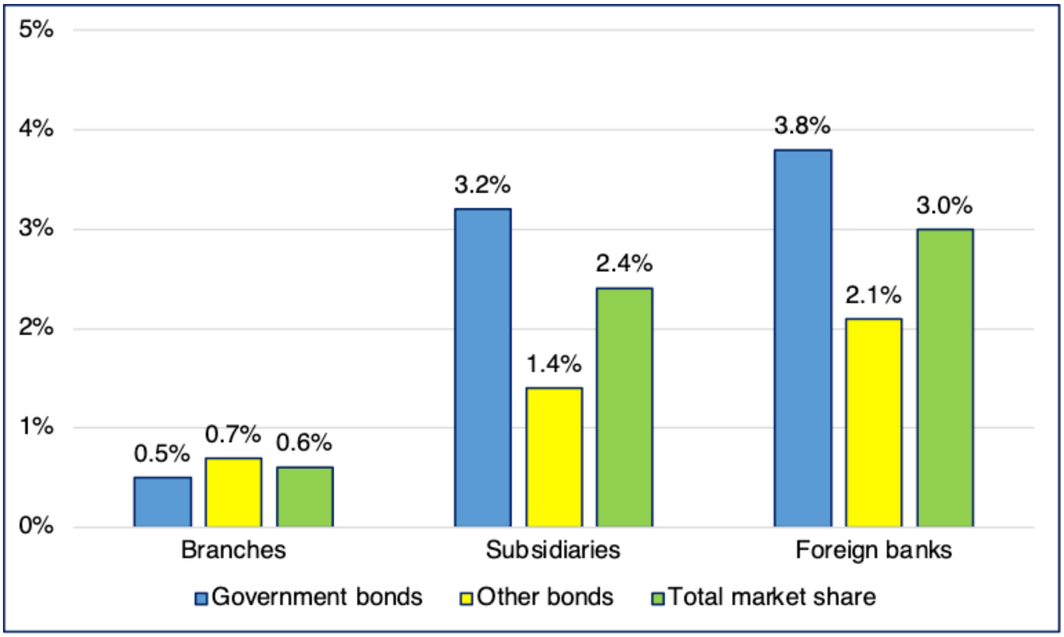


Fig. 7 *Foreign banks' market share of securities held at the end of 2021 (%) – Source: Bank of Italy, Supervisory Statistics*

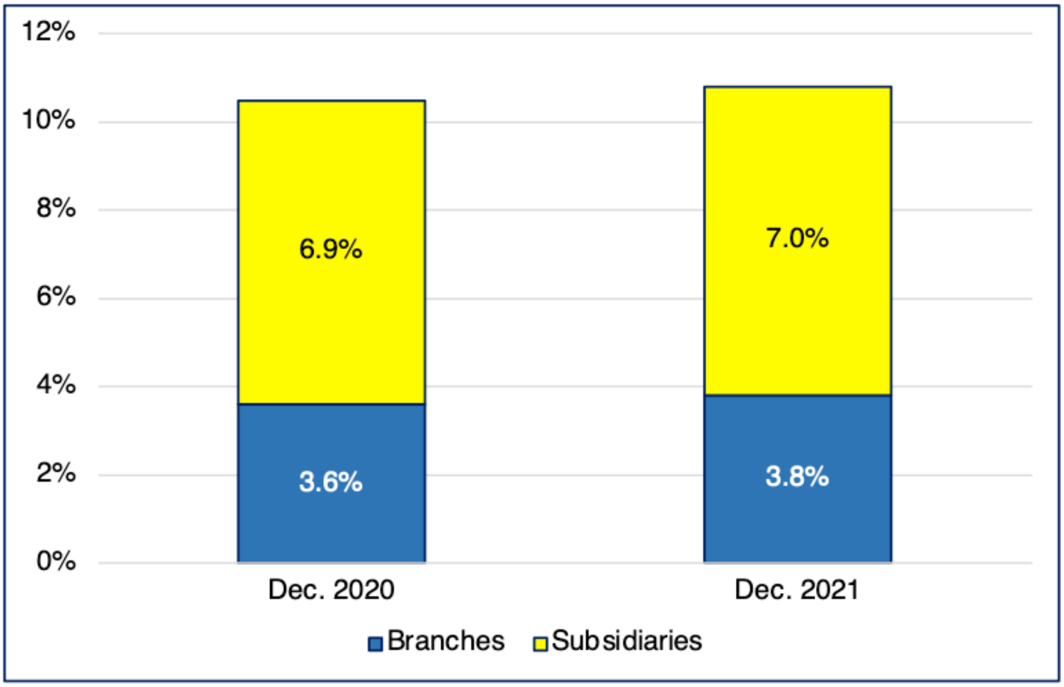


Fig. 8 *Foreign banks' market share of deposits from customers (%) – Source: Bank of Italy, Supervisory Statistics*

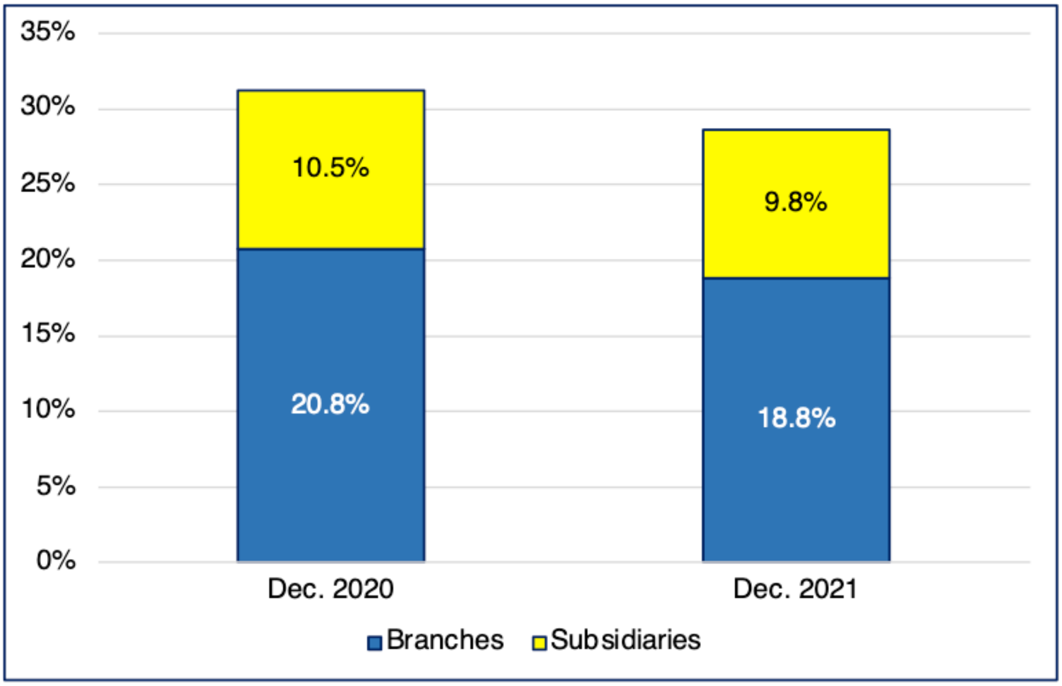


Fig. 9 *Foreign banks' market share for deposits from banks (%) – Source: Bank of Italy, Supervisory Statistics*

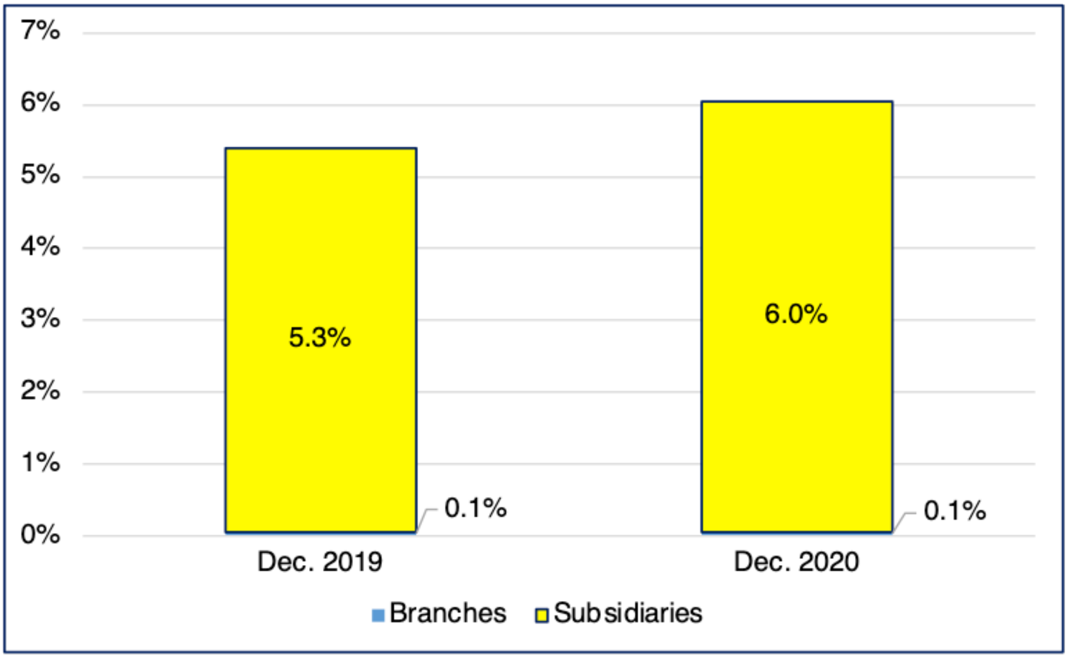


Fig. 10 Foreign banks' market share for securities in issue (%) – Source: Bank of Italy, Supervisory Statistics

3.3 Financial and economic accounts of foreign banks operating in Italy: a sample analysis

The following is a review of aggregate balance sheet data for a sample of 37 foreign bank branches operating in Italy. Data are published in the AIBI Yearbook, over the period 2013/20.

The total assets of this sample, updated at the end of 2020, was about € 225 billion, a 8% fall YoY.

Fig. 11 shows the percentage composition of assets of foreign bank branches. As shown in the chart, the proportion of loans to customers as a percentage of total assets of foreign bank branches has been increasing over time, rising from 40% in 2013 to 49% in 2020, boosted over the past year by borrowing requests to deal with COVID pandemic. Similarly, but for a much lower percentage, the weight of net exposure to banks for foreign bank branches increased from a net debit to a credit position, with a weight equal to 8% of total assets, between 2013 and 2020. By contrast, the contribution from financial assets held for trading fell over the same period, with financial assets held for trading as a percentage of total assets of foreign bank branches falling from 25% in 2013 to 14% in 2020.

Tab. 6 below provides an analysis of the percentage composition of assets, with a breakdown by homogeneous clusters of foreign banks. In 2020 the largest contribution to retail banks' assets came from loans to customers (68% of total retail banks' assets, up from the 2018 value of 50%). With regard to banks specialized in corporate and investment banking activities (CIB banks), the percentage of loans to customers was lower, but remained significant. The composition of CIB banks was more balanced among different items included in the survey, even if differences can be highlighted if we focus on smaller clusters for specific CIB business lines (i.e. securities services, trading services or lending to large corporate).

As shown in Fig. 12, at the end of 2020 net interest income made up 56% of net interest and other banking income of foreign bank branches. Credit intermediation plays a relevant role with regard to the contribution to the overall operating profitability of the analyzed sample of banks. In the same year, operating costs as a percentage of net interest and other banking income amounted to 65%, up from the previous year's value. Net profit, on the other hand, made up around 22% of aggregate net interest and other banking income.

Tab. 7 below summarizes the analysis of the percentage contribution to net interest and other banking income of the main income statement items of foreign bank branches in Italy, by type of foreign bank (retail banks and CIB banks). With regard to retail banks, the interest margin accounted for about 73% of total net interest and other banking income. The weight of operating costs remained stable in 2020, but decreased by 15 percentage points compared with end-2017. CIB banks reported a 41% share of the interest margin, almost stable YoY, while operating costs went up of about 8 percentage points. The annual result was almost 30% of net interest and other banking income. Volatility continued to be high looking at clusters in different business lines.

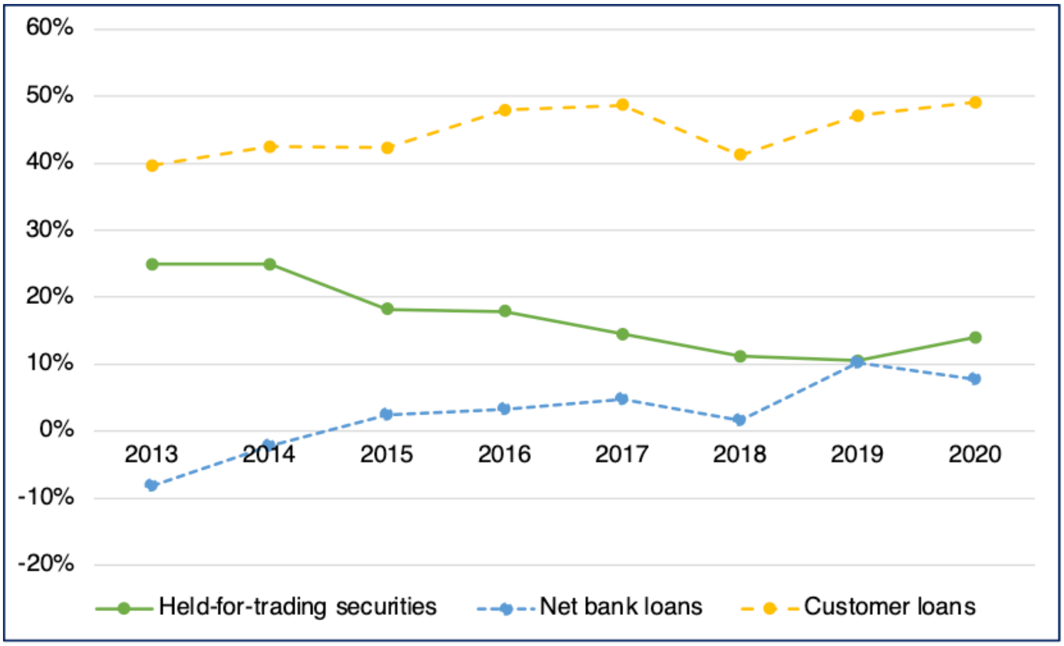


Fig. 11 *% composition of assets of foreign bank branches in Italy (2013/20, main items) – Source: ABI Yearbook*

	2019			2020		
	Financial assets held for trading	**Net banking loans**	**Customer loans**	**Financial assets held for trading**	**Net banking loans**	**Customer loans**
Retail banks, of which specialized in	**0.6%**	**-16.2%**	**67.2%**	**0.6%**	**-11.9%**	**68.3%**
- Retail loans	0.7%	-14.4%	64.2%	0.7%	-9.3%	65.6%
- Automotives captive banks	-	-33.6%	96.4%	-	-35.6%	94.0%
CIB banks, of which specialized in	**18.6%**	**32.4%**	**30.1%**	**24.6%**	**23.3%**	**33.9%**
- Securities services	-	94.0%	0.5%	-	87.2%	0.5%
- Trading services	97.3%	-5.2%	2.1%	96.9%	-4.0%	2.0%
- Large corporate loans	0.4%	-9.4%	72.1%	0.4%	1.6%	69.6%

Tab. 6 *Composition of assets of foreign bank branches in Italy by type of foreign bank (2019/20, main items, %) – Source: ABI Yearbook*

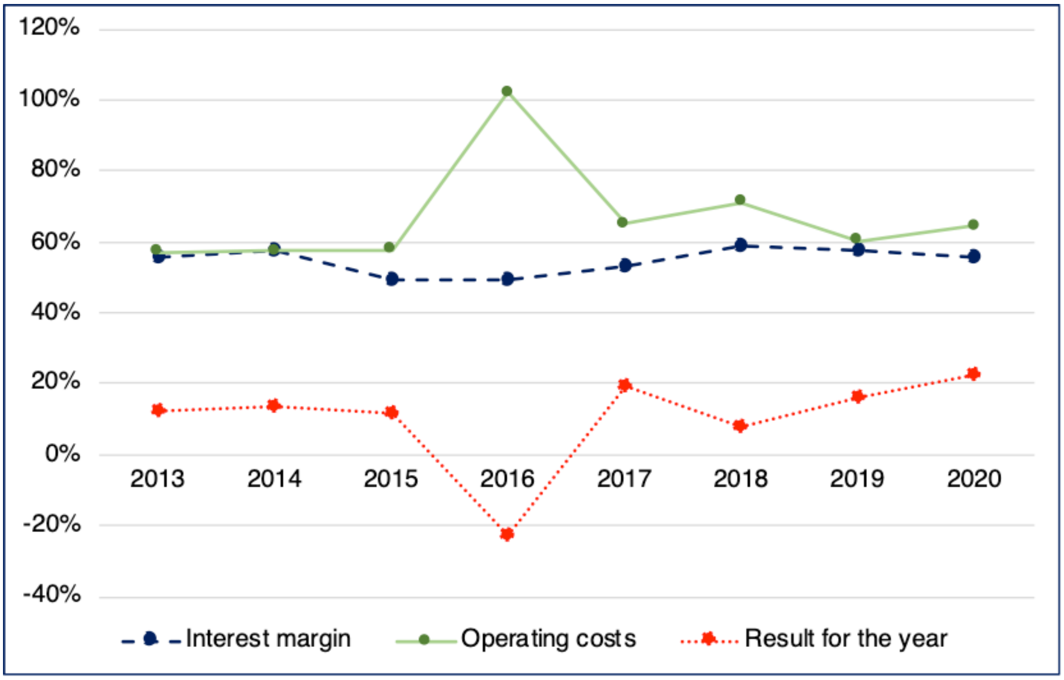


Fig. 12 *Contribution to net interest and other banking income of the main profit and loss items of foreign bank branches in Italy (2013/20, %) – Source: ABI Yearbook*

	2019			2020		
	Interest margin	Operating costs	Result for the year	Interest margin	Operating costs	Result for the year
Retail banks, of which specialized in	**76.8%**	**62.8%**	**13.0%**	**73.1%**	**62.6%**	**14.1%**
- Retail loans	61.3%	72.2%	6.5%	58.2%	71.0%	9.2%
- Automotives captive banks	156.8%	14.2%	46.1%	162.1%	12.4%	43.2%
CIB banks, of which specialized in	**42.1%**	**58.1%**	**22.3%**	**41.3%**	**66.2%**	**29.6%**
- Securities services	8.1%	38.3%	37.6%	2.0%	52.0%	124.3%
- Trading services	15.8%	-69.7%	112.6%	-16.2%	61.3%	15.0%
- Large corporate loans	52.1%	69.7%	13.7%	52.4%	69.6%	8.4%

Tab. 7 *Contribution to net interest and other banking income of the main profit and loss items of foreign bank branches in Italy by type of foreign bank (2019/20, %) – Source: ABI Yearbook*

Chapter 4

Corporate and Investment Banking

This chapter summarizes the main data regarding the role played by foreign banks and intermediaries in supporting Italian companies when making decisions about the composition of firms' capital structure, funding decisions and advisory services in Merger and Acquisition deals.

The majority of AIBE Member Banks operate in this sector, providing corporations with a broad portfolio of advanced financial services.

4.1 Structured finance

4.1.1 Syndicated loans

In 2021 the Italian syndicated loans market increased by about € 20.4 billion, from € 49.3 to 69.7 billion (Fig. 13), the third highest volume posted over the past decade. Despite the high volatility in the market observed in recent years, the market share held by foreign bookrunners remained very relevant. In 2021 foreign players acting alone as bookrunners had 6.6% of the market, in terms of tranche values, intermediation being mainly within international pools of lenders with Italian banks (70.7%).

In the last few years we have observed a huge increase in the percentage of issuances assisted by international pools of bookrunners, including both Italian and foreign players, which have more than doubled, from € 23.1 to € 48.9 billion.

The average size of these tranches is € 368 million, almost double the average size of last year's issuances (€ 190 million).

A total of 23 tranches were assisted exclusively by foreign bookrunners, 6% in terms of both number and volume. In 20 of these 23 issuances there was a single foreign bookrunner (19 times French, once Spanish). Countries of origin are much more diversified if we look at the largest deals involving 3 or more bookrunners.

Foreign bookrunners mainly supported Italian firms operating in the Utility & Energy, Transportation and Computers & Electronics sectors (Fig. 14). The top 3 sectors accounted for about € 27.5 billion, or 40% of the whole market (34% in 2020), and 52% of the total tranche values linked to foreign bookrunners (55% in 2020).

Syndicated loans are mainly medium/long term issuances. In 2021 Italian issuances had an average original maturity of about 6.3 years (5.8 in 2020). If we analyze the distribution of tranches by maturity, medium-term issuances (from 3 to 5 years) account for about 59% of the whole market size (€ 40.9 billion). Within this cluster, the market share held by foreign bookrunners is close to 81%. Issuances with a longer maturity (above 5 years) have a total value of about € 15.3 billion, making up 22% of the market size in 2021. The market share held by foreign players is 66%.

In terms of credit standing, 2021 issuances are quite balanced between deals with high credit standing ("Investment Grade", 55% of the total, just 1 percentage point higher than 2020), while “Leveraged Grade” tranches made up 45% of the total market. The market share of foreign bookrunners was 74% of the total value of “Investment Grade” issuances (€ 28.3 out of € 38.3 billion), with these deals making up 53% of their business. With regard to “Leveraged Grade” issuances, foreign players assisted deals worth about € 24.8 billion, representing a 79% market share for these issuances.

In this market we also looked at the role of foreign players as Mandated Lead Arranger (MLA). The bookrunner(s) is/are designated by the company to coordinate the syndication process and is/are responsible for structuring the financing and for designing and implementing the transaction. The MLA plays another key role for syndicated loans, facilitating and leading a group of investors. Moreover, the MLA also assigns parts of the issuance to other underwriters, and usually takes a portion of the debt itself. With regard to 2021 issuances, foreign players acted as MLAs in 162 out of 367 tranches (44% of the total), worth € 39.7 billion (57% of value). In the top 10% of tranches by deal value (36 tranches, € 48.8 billion), and if we exclude 16 deals without MLAs, foreign investment banks were involved in 19 out of 20 tranches. As expected, the higher the size of the deal and its complexity, the higher the market share held by foreign players.

Data for 2021 showed a significant increase in syndicated loan issuances, boosted by more favorable market conditions, as economic and social restrictions related to the COVID-19 pandemic began to loosen. During the first months of 2021, international surveys showed an increase in firms’ confidence towards future macroeconomic scenarios and, at the same time, a growing credit demand for investments, in terms of both working capital and capital expenditures.

The last quarter of 2021 and first months of the current year showed a more pessimistic outlook, due to several factors: inflation, bottlenecks in the supply chain and production and uncertainty generated by the military conflict between Russia and Ukraine.

Data referring to the first half of 2022, updated to the end of April, showed a downturn in the Italian syndicated loans market. Dealogic database recorded 75 tranches of syndicated loans issued by Italian companies, amounting to about € 17.4 billion in total deal value (€ 23.8 billion over the period January/April 2021, –27%). The market share held by non-domestic players grew to 89% (€ 15.5 billion), as they were involved in 42 out of 75 tranches (56%).

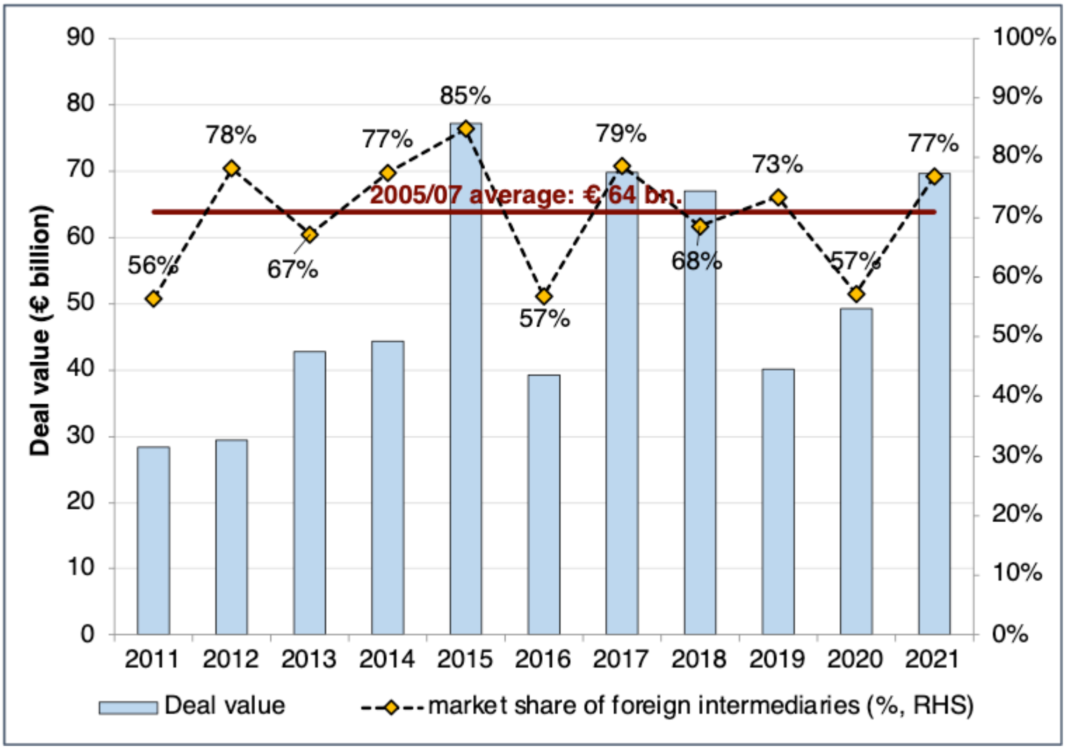


Fig. 13 *Annual deal value of syndicated loans and share of foreign intermediaries (2011/21, € billion and %) –*
Source: elaboration of data from Dealogic database

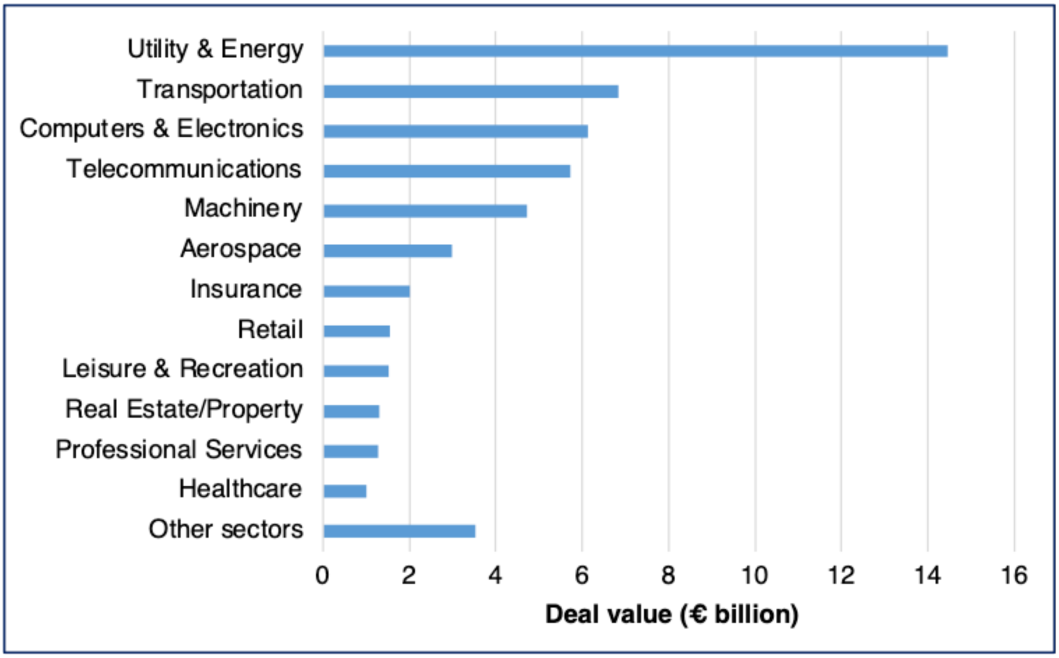


Fig. 14 *Deal value of syndicated loans and market share of foreign bookrunners by industrial sector (2021, first 12 sectors, data in € billion and %) –*
Source: elaboration of data from Dealogic database

4.1.2 Securitization

This section summarizes the main data regarding the Italian securitization market, i.e. transactions involving Italian issuers in Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) deals.

The market size grew YoY, after falling to the lowest value in last decade in 2020. The value of ABS deals (29 tranches) was about € 4.1 billion. All deals were assisted by at least one foreign intermediary. In greater detail, 20 tranches were exclusively assisted by foreign intermediaries, accounting for about 69% in volume and 55% in deal value. The 9 remaining tranches were assisted by pools of bookrunners that include both foreign intermediaries and domestic players, accounting for 31% in volume and 45% in deal value.

The average tranche size was around € 141 million.

No MBS deals were recorded in the Dealogic database in 2021.

Figures for the period January/April 2022 highlight a further partial recovery of the securitization market: 8 ABS tranches (splitting of 2 deals) were recorded in the Dealogic database: the total market size was € 763 million. Foreign players participated as bookrunners in all these transactions.

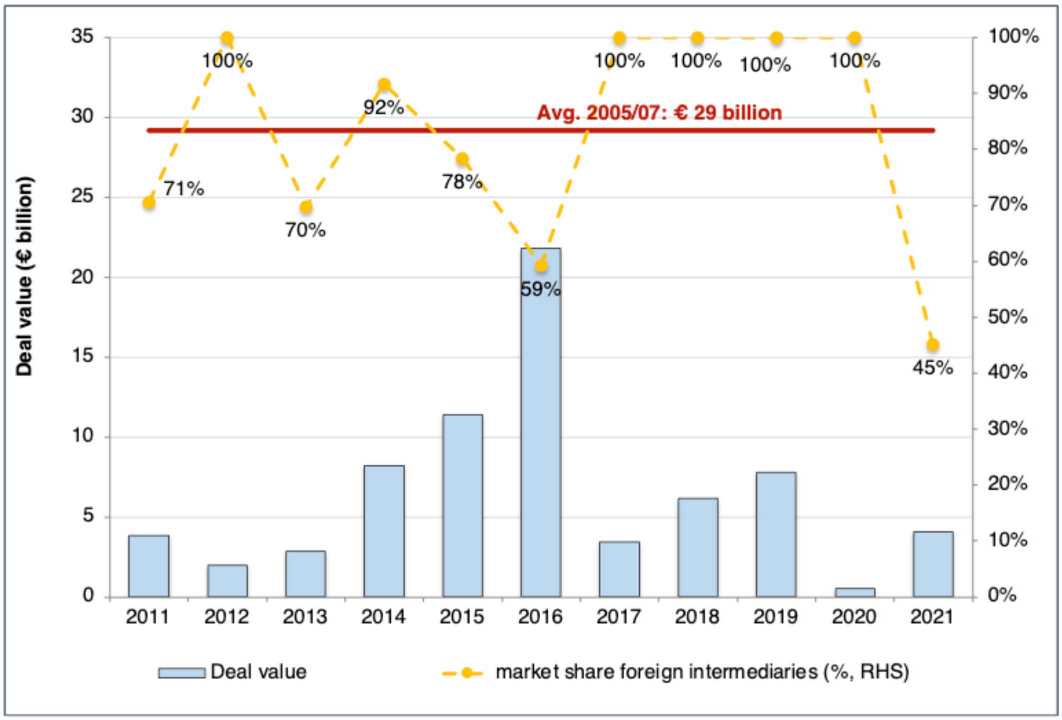


Fig. 15 Annual value of ABS and MBS deals and share of foreign intermediaries (€ billion and %, 2011/21) –
Source: elaboration of data from Dealogic database

4.2 Export Finance: financial guarantees to support the growth of Italian companies abroad

This section summarizes the role of foreign players (banking groups, financial institutions and Export Credit Agencies) in supporting Italian companies interested in competing and expanding internationally. Data in the report were collected and provided by SACE, an Italian institution 100%-owned by Cassa Depositi e Prestiti (CDP), which offers export credit services, credit insurance, foreign investment protection, financial guarantees, bonding and factoring.

Tab. 8 summarizes the amount of financial resources deployed to support the exports and internationalization of Italian companies. As shown in the table, the support offered by banks, finance companies and ECAs showed a slight increase over the last year, from € 11.2 billion to € 11.9 billion (+7% YoY). There were rises for both components: financial guarantees for exports grew by about € 571 million (+7.1%), and continue to make up most of the total (72%). Financial support for internationalization grew by slightly less than € 200 million (+6.3%). As shown in Tab. 8, SACE's activities in support of exports referred to guarantees on loans extended to foreign buyers of Italian goods and services, as well as insurance covering against the risk of default or performance, amounting to € 8.6 billion. Support for internationalization, in which SACE plays an active role, accounted for 28% of the total (€ 3.3 billion in terms of value).

Fig. 16 shows that in the past year volume growth has been accompanied by a strengthening of the presence and role played by foreign players. If we analyze the whole market, foreign players have a market share of 42% (€ 5 billion), about 3 percentage points higher than in 2020.

The most active foreign operators come from France (41% of total financial guarantees), Germany (18%) and Spain (17%).

Fig. 17 shows that financial guarantees for export credit granted by foreign players made up about 45% of the total and about 32% of total resources set aside by SACE.

With reference to financial support for internationalization, guarantees granted to foreign operators made up about 35% of the total guaranteed for internationalization, and 10% of total resources set aside by SACE.

In the last two years SACE has strengthened its commitment to supporting Italian companies, with the aim of limiting the negative effects on the Italian economy of the Covid pandemic and, in more recent months, macroeconomic uncertainties and new risk scenarios. SACE data summarize the actions and financial resources mobilized using the two instruments "Economic Recovery" and "Green".

Tab. 9 summarizes the guarantees issued by SACE through the "Economic Recovery" instrument, amounting in 2021 to about € 11.9 billion, almost equivalent to support for exports and internationalization, € 9.8 billion of which assisted through Italian financial institutions, or 83% of the total (86% in 2020). In the same year, the "Green" instrument had a value of about € 2.7 billion, and the market share of domestic players was about 85%. The market share held by foreign banks is still limited, but has increased YoY by about 2-3 percentage points.

Summing up all of SACE's interventions (exports, internationalization, "Economic Recovery", and "Green" instruments), the total value of financial resources mobilized was about € 26.6 billion, of which € 7.5 billion with the involvement of non-resident intermediaries (28%), mainly coming from France, Germany and Spain, accounting for about € 5.3 billion, 20% of the total and 71% entailing a role for foreign players.

	2018		2019		2020		2021	
	Value	%	Value	%	Value	%	Value	%
Italian players	6,710	49.9	2,925	36.0	4,086	50.8	4,755	55.2
Foreign players	6,725	50.1	5,210	64.0	3,962	49.2	3,865	44.8
Total Export (a)	**13,435**	**100**	**8,135**	**100**	**8,048**	**100**	**8,619**	**100**
Italian players	3,100	58.2	1,869	65.7	2,697	86.2	2,163	65.0
Foreign players	2,230	41.8	974	34.3	430	13.8	1,163	35.0
Total Internationalization (b)	**5,330**	**100**	**2,843**	**100**	**3,127**	**100**	**3,326**	**100**

Total value (a+b)	2018		2019		2020		2021	
	Value	%	Value	%	Value	%	Value	%
Italian players	9,810	52.3	4,794	43.7	6,783	60.7	6,918	57.9
Foreign players	8,955	47.7	6,184	56.3	4,392	39.3	5,027	42.1
Total (a+b)	**18,765**	**100**	**10,978**	**100**	**11,175**	**100**	**11,945**	**100**

Tab. 8 *Financial guarantees to support the foreign growth of Italian companies: annual deal value of guarantees by type of instrument and market share held by Italian and foreign players (2018/2021, € billion and %) –*
Source: elaboration of SACE data

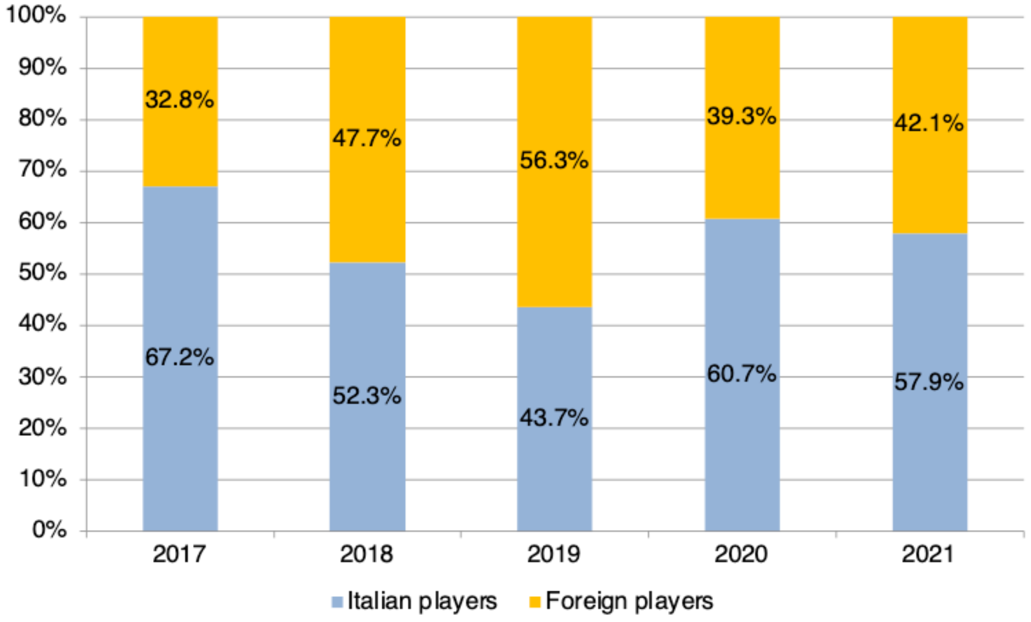


Fig. 16 *The composition of financial guarantees supporting the growth of Italian companies abroad: market share held by Italian and foreign players (2017/21, %) –*
Source: elaboration of SACE data

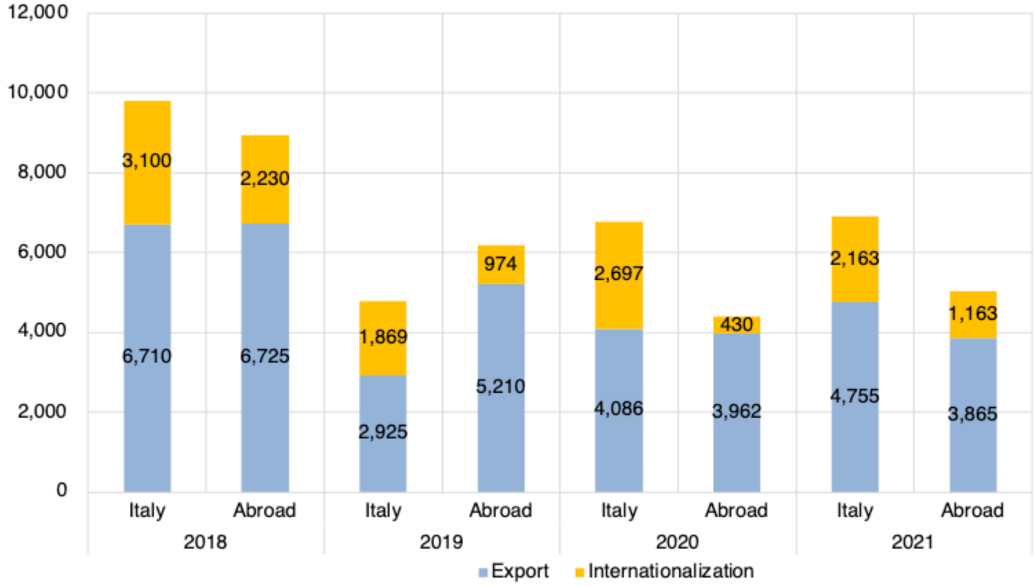


Fig. 17 *The value of financial guarantees to support the growth of Italian companies abroad: geographic origin of secured loans (2018/21, € billion) –*
Source: elaboration of SACE data

	2020		2021	
	Value	**%**	**Value**	**%**
Italy	17,769	85.7	9,882	83.0
Abroad	2,966	14.3	2,021	17.0
"Economic Recovery"	**20,735**	**100**	**11,903**	**100**

	2020		2021	
	Value	**%**	**Value**	**%**
Italy	0.263	86.8	2,330	84.7
Abroad	0.040	13.2	419	15.3
"Green"	**0.303**	**100**	**2,749**	**100**

Tab. 9 *Financial guarantees to support the "Economic Recovery" and the "Green Transition": deal value of guarantees and market share held by Italian and foreign players (2020/21, € billion and %) –*
Source: elaboration of SACE data

4.3 Private equity and venture capital

This section highlights the principal data regarding recent trends in the Italian private equity and venture capital market.

According to the AIFI - Italian Private Equity and Venture Capital Association in 2021 total funds raised on the private equity and venture capital market amounted to € 5.7 billion, 94% of which from independent funding (Tab. 10). 44 operators carried out fundraising activities on the Italian market in 2021. Funds raised by the parent company fell to € 366 million (€ 540 million in 2019), and continued to represent a very small portion of all funds raised, marked moreover by high volatility from one year to another. The role of pan-European funds based in Italy in 2021 was remarkable, reinforcing the growing long-term trend. At the end of 2021, about € 5.5 billion of funds were raised (+76% YoY).

With reference to the geographic origin of fundraising, the weight of independent funds was 11%, up slightly from the previous year (Tab. 11): values remained well below the period 2016/19 (on average the market share was 32%).

The analysis of funding by source (Fig. 18) shows that pension funds represented the first source of capital (26%), having more than doubled compared with 2020, followed by individual investors and family offices (17%, down about 11 percentage points), and public sector & institutional funds of funds (15%, 4 percentage points down in the last year). The market share held by banks increased significantly, growing from 4% to 14%.

In 2021 654 transactions were registered on the Italian private equity and venture capital market, distributed among 488 companies, for a value of € 14.7 billion. Compared to the previous year (€ 6.6 billion invested in 471 deals), there was a 39% growth in the number of transactions, while the amount invested grew by 123%, driven by the infrastructure segment.

In a long-term comparison (Tab. 12), we can highlight a decrease in new funds raised by foreign banks (22% of total funds raised by banks over the period 2005/08 and only 8% in period 2009/21). Funds of funds from abroad made up almost 60% of this source (96% in 2005/08). Nevertheless, they are still the most relevant source for attracting funds from abroad, accounting for about 33% of total new funds raised from abroad in the period 2009/21. Asset managers and pension funds are also relevant, with market shares of about 16% and 13% respectively.

Sources of funds	2016		2017		2018	
	Value	%	Value	%	Value	%
Independent funding	1,313	37.6	6,230	84.9	3,415	46.2
Funds raised by parent company	401	11.5	33	0.4	215	2.9
Capital gain	-	-	-	-	-	-
Total raised funds (a)	**1,714**	**49.1**	**6,263**	**85.4**	**3,630**	**49.1**
Pan-European funds based in Italy (b)	1,774	50.9	1,075	14.6	3,763	50.9
Total (a+b)	**3,488**	**100**	**7,338**	**100**	**7,393**	**100**

Sources of funds	2019		2020		2021	
	Value	%	Value	%	Value	%
Independent funding	1,566	45.6	2,072	36.2	5,359	47.8
Funds raised by parent company	25	0.7	540	9.4	366	3.3
Capital gain	-	-	-	-	-	-
Total raised funds (a)	**1,591**	**46.4**	**2,612**	**45.6**	**5,725**	**51.1**
Pan-European funds based in Italy (b)	1,840	53.6	3,116	54.4	5,477	48.9
Total (a+b)	**3,431**	**100**	**5,728**	**100**	**11,202**	**100**

Tab. 10 Italian private equity and venture capital markets: fundraising trends (2016/21, € million and %) –
Source: elaboration of AIFI data

Independent raising	2016		2017		2018	
	Value	%	Value	%	Value	%
From abroad	482	36.7	201	27.6	702	36.0
From Italy	831	63.3	527	72.4	1,249	64.0
Total	**1,313**	**100**	**728**	**100**	**1,951**	**100**

Independent raising	2019		2020		2021 (*)	
	Value	%	Value	%	Value	%
From abroad	298	26.7	193	10.2	401	11.0
From Italy	818	73.3	1,708	89.8	3,243	89.0
Total	**1,116**	**100**	**1,901**	**100**	**3,644**	**100**

Tab. 11 Italian private equity and venture capital markets: geographic origin of raised funds (independent funds, 2016/21, € million and %) –
Source: elaboration of AIFI data
Note (*) For 2021 data are based on 72% (92% in 2020) of the private sector market, for which data are available

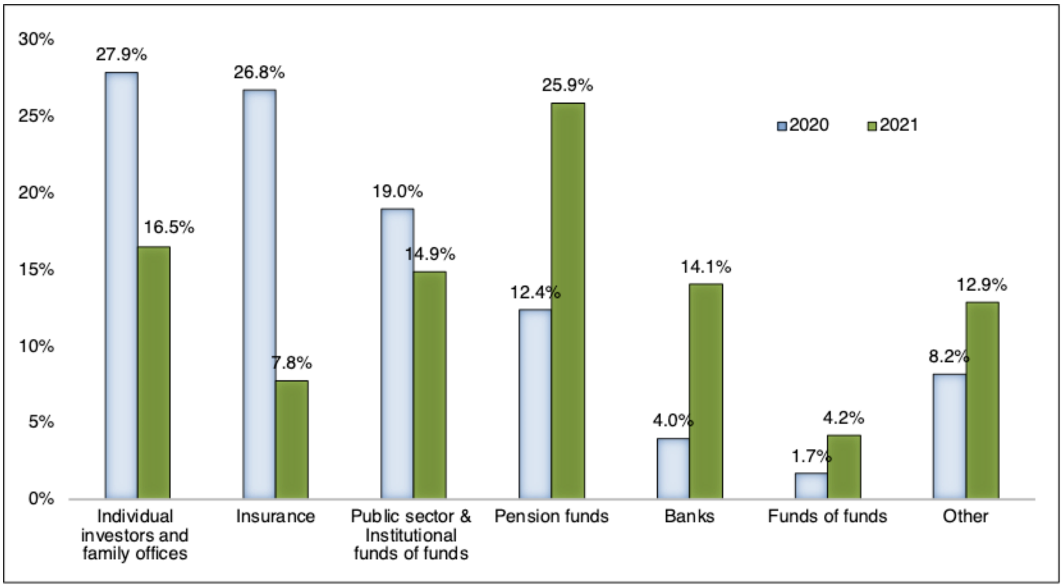


Fig. 18 *Italian private equity and venture capital market: composition of new funds raised on the market (2020/21, %) –*
Source: elaboration of AIFI data

Sources of new funds raised on the market	2005/08				2009/21				
	Italy	Abroad	Total	%	Italy	Abroad	N/A	Total	%
Banks	1,115	317	1,432	22.3	3,630	327	105	4,061	15.9
Funds of funds	60	1,510	1,570	24.4	1,089	1,850	225	3,164	12.4
Pension funds	224	259	483	7.5	4,143	706		4,848	19.0
Insurance companies	268	173	441	6.9	1,776	398	418	2,592	10.1
Private equity companies				-	194	83		277	1.1
Asset Manager				-	244	926	20	1,190	4.7
Other sources			2,508	39.0	5,317	1,336	2,792	9,445	36.9
Total			**6,434**	**100**				**25,578**	**100**

Tab. 12 *Italian private equity and venture capital market: composition and geographic origin of new funds raised on the market (2005/21, € million) –*
Source: elaboration of AIFI data

4.4 Mergers and Acquisitions

According to data released by KPMG Corporate Finance, the Italian M&A market made an exceptional recovery in 2021, in line with global business trends, after the huge downsizing suffered in 2020 due to the pandemic, falling from around € 52 billion to € 44 billion (–15% YoY).

2021 was an exceptional year for international M&A deals: the total value amounted to $4.4 trillion (+46% YoY) spread over about 49,000 deals (+32% YoY): the results were higher than expectations after the shock caused by the pandemic.

The Italian M&A market enjoyed a very positive year. According to KPMG's analysts, about 1,200 transactions were completed (+38% YoY), worth € 100 billion (+127% YoY). Many positive drivers can be highlighted, e.g. the economic rebound after the collapses observed in 2020, the improvement in the Italian Government's creditworthiness and international standing, and low interest rates favoring investments by industrial and financial players. These results are in line with growth trends reported by other European countries, suggesting that Italy has returned to playing a key role in international M&A markets. In particular, after the severe shock due to the pandemic, in 2021 cross-border M&A deals posted a significant increase: cross-border deals amounted to 579 (+57% YoY), worth € 75 billion, more than 2.5 times the value recorded in 2020. Therefore, cross-border deals made up 74% of the whole Italian M&A market in 2021. On the one hand, outgoing cross-border deals rose 40% by volume and 160% by value; on the other, incoming cross-border operations grew by 68% in volume and more than 3 times in value. Incoming deals amounted to € 17.2 billion (17% of the whole Italian M&A market in 2021).

Among the "top ten" deals (worth € 54.8 billion), there were 8 cross-border deals (€ 48.4 billion): 2 of these deals were incoming, while for the remaining 6 deals Italian companies acted as bidders.

After the huge losses in 2020, foreign investments in Italy made a significant recovery last year, reaching a new record of 367 completed deals. European countries continued to play a leading role, with a market share of about 67% of total inbound transactions. However, in the league table by country, the "top five" foreign countries active in the Italian M&A market were the US (95 deals), France, the UK, Germany and Luxembourg. The Asia Pacific market share fell to only 12% of total volume (12 deals, of which 2 from China).

For consistency with past AIBE Reports, the Dealogic database was used to extract data on Italian M&A deals in 2021 with the aim of analyzing the presence and role of foreign intermediaries as advisors in supporting M&A deals. According to Dealogic, in 2021 the Italian M&A market recorded 925 completed deals, worth about € 96.8 billion, very close to KPMG figures. The value of operations announced in the previous two years and completed in 2021 (81 deals) was about € 60.6 billion: more than a third refers to the Fiat Chrysler Automobiles NV-Peugeot SA M&A, announced in 2019 and completed in January 2021.

Even if information about target and/or acquiror advisor(s) is available for about one third of the database, we can highlight the fact that foreign target advisors and foreign acquiror advisors played a significant role. They participated as target advisors in 242 deals, 26% of the total market and 74% of the number of deals for which advisors are available. These 242 deals accounted for 87% of the total value and 97% if we exclude deals lacking information on target advisors. A similar picture emerges if we focus on acquiror advisors.

Tab. 13 confirms the remarkable role of foreign advisors: at least one foreign advisor was involved in about 93% of deals (in terms of value). This percentage was calculated by considering both the role of all-foreign advisors and that of pools that include Italian and foreign advisors. If we exclude the role of Italian intermediaries, we estimate that foreign advisors were involved in M&A deals worth about € 41 billion (42% of the total market value).

Auto/Truck, Computers & Electronics and TLC are the leading sectors in terms of the presence of foreign target advisors (€ 48.5 billion, 58% of the total deal value relating to foreign target advisors). The results are similar if we look at the activity of foreign purchaser advisors: Finance is the leading sector, and the top 3 sectors (Finance, Auto/Truck, Computers & Electronics) account for about € 59.8 billion, or 72%, of the total deal value related to foreign acquiror advisors.

A special focus on "top ten" deals and largest deals (value equal to or higher than € 1 billion) was based on Dealogic data.

With regard to "top ten" deals (total value of about € 50.6 billion, 52% of the total market value), foreign target advisors were involved in 9 out of 10 deals (€ 49.1 billion). If we focus on acquiror advisors, we can see that at least one foreign advisor was involved in all 10 largest deals: 5 deals were assisted exclusively by foreign advisors, while the other 5 saw the participation of both foreign and Italian advisors.

In 2021 there were 23 "mega deals", valued at least € 1 billion, with a cumulative value of € 67 billion. Foreign target advisors were involved in 21 out of 23 deals, while the same statistics with regard to the role of acquiror advisors show that their presence was recorded in 22 out of 23 deals.

At the beginning of the current year, expectations for M&A were positive for both the Italian and global markets, despite some risk factors and uncertainties relating to inflation and supply chain disruptions. With the outbreak of the war between Russia and Ukraine, major analysts pointed to an unexpected worsening of economic scenarios. The M&A market has also been affected by these new concerns. The number of new completed deals has fallen, and several put on hold, waiting for financial, economic and geopolitical stabilization.

In greater detail, on the basis of data released by KPMG, in the first quarter of 2022, 239 transactions were concluded in the Italian M&A market (–20% compared with Q1-2021), worth € 17 billion (–44%). The war has significantly shifted investors' attitudes: in March 2022 only 52 deals were completed, while in the same month in 2021 the number was exactly double. However, some positive signs are evident: the relevance of big deals (87% of the total value is concentrated in "top ten" deals), and the consolidated role of private equity funds, completing 34 deals worth € 11.8 billion, 30% of which referring to foreign funds.

Geographical origin of target advisor parent	Geographical origin of acquiror advisor parent								Total	
	abroad		Italy and abroad		Italy		N/A data			
	Value	%	Value	%	Value	%	Value	%	Value	%
abroad	41.0	42.4	23.9	24.7	2.9	2.9	3.8	4.0	71.6	73.9
Italy and abroad	5.2	5.4	7.0	7.2	0.4	0.4	0.2	0.2	12.8	13.2
Italy	1.8	1.9		-		-	0.7	0.7	2.5	2.6
N/A data	3.7	3.8	0.4	0.4	0.7	0.7	5.1	5.3	9.9	10.2
Total	**51.7**	**53.5**	**31.3**	**32.3**	**3.9**	**4.0**	**9.9**	**10.2**	**96.8**	**100**

Tab. 13 Value of M&A deals by geographic origin of advisors (2021, € billion) – Source: elaboration of Dealogic database

Chapter 5

Advisory and operations on capital markets

This chapter analyzes the positioning of foreign intermediaries in providing financial services to support Italian firms with access to international financial markets. The topics covered refer to their advisory role as bookrunners for issuances of debt and equity securities and in retail trading.

5.1 Debt capital market

According to Dealogic data, in 2021 the market size of debt issuances by Italian firms amounted to about € 156 billion (€ 179 billion in 2020), distributed over 189 tranches (208 in 2019). Despite significant volatility, a growing long-term trend can be seen, as in 2011 the market size was almost half of that recorded at the end of 2021.

The role of foreign bookrunners remains extremely relevant: in 2021 the issuances that were assisted by at least one foreign intermediary amounted to 91% of the total market in terms of deal value (€ 142.4 billion, Fig. 19), with constant annual growth after the 2012 minimum. The majority of issuances were assisted by international pools of bookrunners, with the joint participation of Italian and foreign banks and financial intermediaries (117 deals worth € 130 billion). Foreign bookrunners only assisted the issuances of 55 tranches (29%) worth about € 12 billion (8%), while one per cen of the market share was handled by domestic intermediaries.

The average tranche size was slightly lower than 2020 values, going from € 860 to € 824 million; in the case of international pools of bookrunners the average size rose to € 1.1 billion, reflecting the higher complexity of these deals.

There were 40 “mega deals”, i.e. tranches having a value of at least € 1 billion (36 in 2020), with a total value of € 103.8 billion, making up about 67% of the whole market (72% in 2020). Also, within this cluster the role of foreign and international pools of bookrunners was very relevant, as they participated in 33 out of 40 “mega deals”, worth € 92 billion.

Looking at issuers by industrial sector, Government, Finance, and Utility & Energy were by far the leading sectors: issuers from these three sectors raised € 125 billion, 81% of the total market value. If we analyze the role of non-resident bookrunners, the distribution is similar for leading sectors. As Fig. 20 shows, foreign intermediaries mainly assisted the “Government” sector (€ 69.3 billion), Italian companies operating in the financial sector (€ 23.9 billion) and Utility & Energy companies (€ 18.8 billion). These three main sectors accounted for about € 112 billion, or 72%, of the whole market size, and 79% of all intermediation undertaken by foreign and international pools of bookrunners. If we look at the top 10 sectors, these percentages grew to 88% and 96% respectively.

The geographic origin of bookrunners by tranche value (Tab. 14) highlights a significant presence of foreign bookrunners in almost all tranche value classes. Also, the analysis in terms of deal type (Tab. 15) confirms the positioning of foreign bookrunners in all types of issuances: they held a relevant market share for both public and private issuances, and for investment and leveraged grade issuances.

The most recent data for the period January/April 2022 show a slowdown in Italian DCM Issuances: the Dealogic database recorded 52 issuances worth € 38.8 billion (€ 58 billion over the same period in 2021).

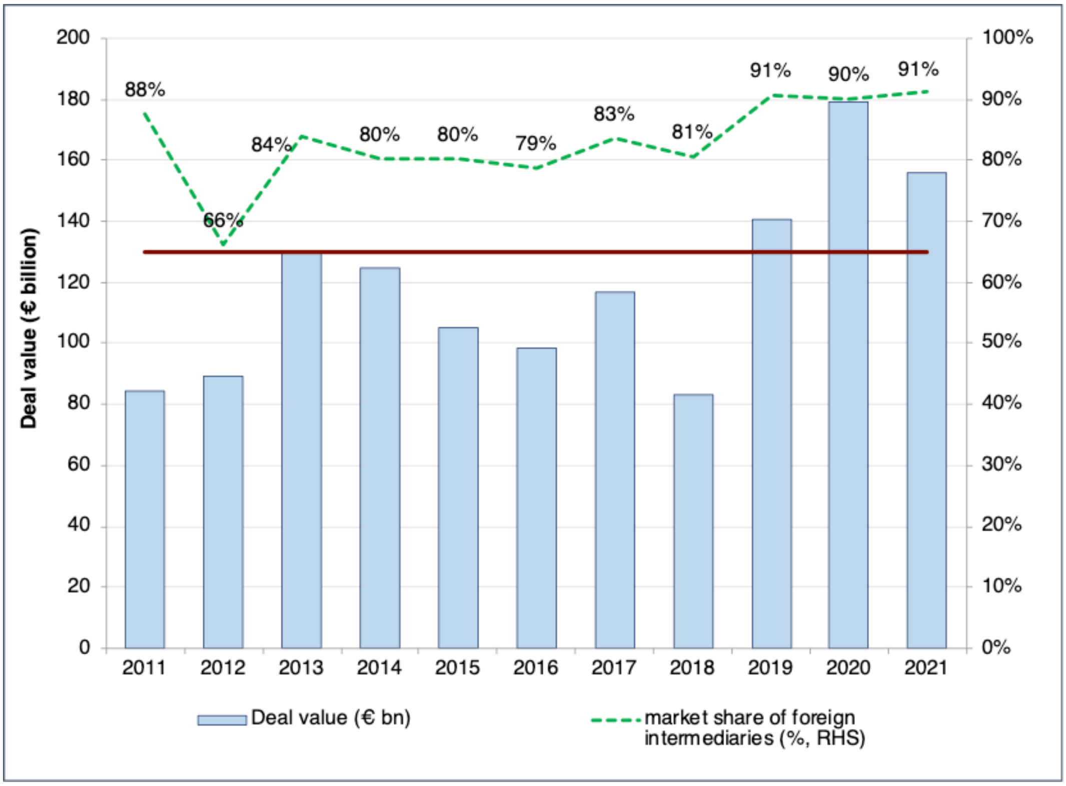


Fig. 19 Debt capital market (DCM) issuances by Italian borrowers: total annual deal value (2011/21, € billion) and market share of foreign bookrunners (%, RHS) – Source: elaboration of Dealogic data

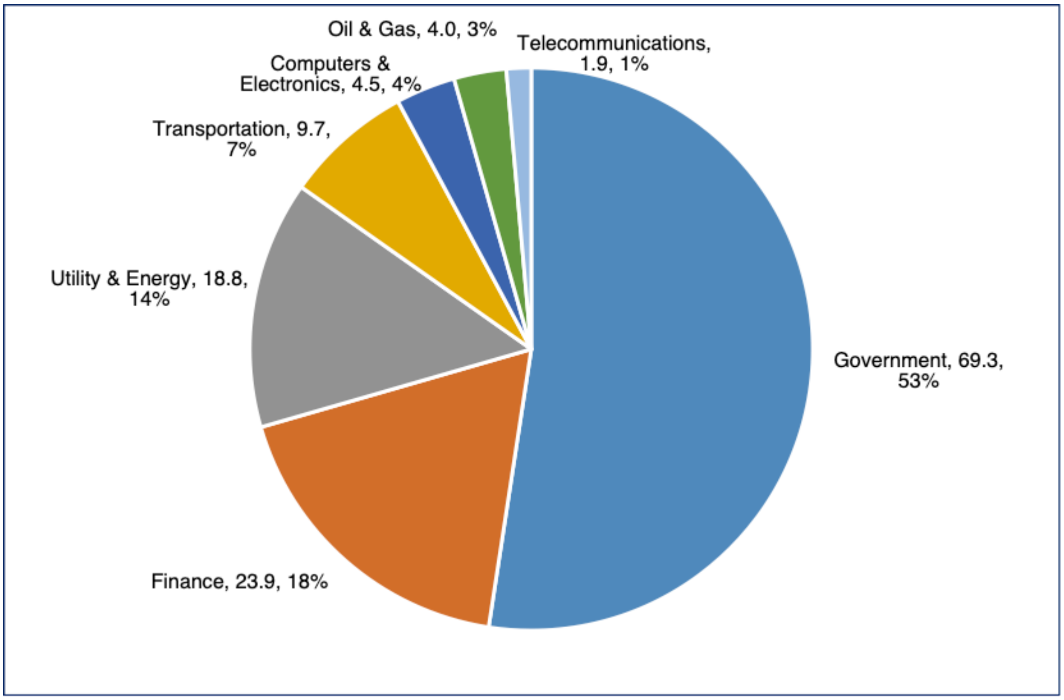


Fig. 20 *DCM issuances by industrial sector of Italian borrowers assisted by foreign bookrunners (2021, € billion and %) –*
Source: elaboration of Dealogic data

Class of tranche value	Foreign bookrunners		
	Number of tranches	Deal value	Market share (%)
Up to € 10 million	9	49.8	100%
€ 10-100 million	30	1,102.4	77.5%
€ 100-500 million	68	26,305.7	95.1%
€ 500 million-1 billion	45	35,890.3	92.3%
€ 1-5 billion	14	27,549.6	75.9%
More than € 5 billion	6	51,500.0	100%
Total	**172**	**142,397.9**	**91.4%**

Tab. 14 *DCM issuances by Italian borrowers assisted by foreign bookrunners: distribution of tranche value by size (2021, € million) –*
Source: elaboration of Dealogic database
Note *market share (%) is by class of tranche value.*

Deal type	Foreign bookrunners		
	Number of tranches	Deal value	Market share (%)
Sovereign, Local Authority	12	69,274.9	88.8%
Corporate Bond-Investment-Grade	64	41,472.2	92.9%
Corporate Bond-High Yield	45	21,168.8	100.0%
Covered Bond	10	5,350.0	100.0%
Asset-Backed Security	25	3,007.9	73.4%
Non-US Agency	2	1,250.0	92.6%
Medium-Term Note	14	874.0	72.5%
Total	**172**	**142,397.9**	**91.4%**

Tab. 15 *DCM issuances by Italian borrowers assisted by foreign bookrunners: distribution of tranche value by deal type (2021, € million) –*
Source: elaboration of Dealogic database
Note *market share (%) is by deal type.*

5.2 Equity capital market

This section summarizes the role of foreign bookrunners in supporting Italian companies with equity issuances (e.g., IPOs, rights offer, accelerated bookbuild and convertible bond issuances).

According to Dealogic data, in 2021 the size of the Italian equity capital market was about € 7.4 billion, +1.4% YoY (Fig. 21), distributed over a higher number of deals, growing from 48 to 74. The trend has remained stable over the past 3 years. The size of the equity market is much lower than the peaks of the past decade, especially in 2014 and 2017: in 2021 the market size was a little over half that recorded in the 3Y period just before the financial crisis of 2007/08.

Because of the increase in the number of deals, the average size fell from € 153 million to € 101 million.

As Fig. 21 shows, over the whole of the past decade the market share held by foreign bookrunners in supporting Italian issuers has been remarkable, and 2021 confirmed this trend. Last year the market share held by foreign bookrunners stood at 93%. The deals assisted by foreign bookrunners numbered 46 (62% of the total), of which 24 assisted exclusively by a sole foreign bookrunner or by a group made up exclusively of foreign intermediaries (€ 1.9 billion).

The largest operations are normally assisted by a transnational pool of bookrunners, made up of 5 players on average. All the “top ten” deals saw the participation of at least one foreign player. The “top ten” deals (14% in number) accounted for about € 5.2 billion, or 70%, of the total market value (87% in 2020).

Fig. 22 summarizes the distribution of deals assisted by foreign bookrunners by issuers’ economic and industrial sectors. Computers & Electronics, Healthcare, and Metal & Steel are the leading sectors, intermediating € 3.8 billion, or 54% of the total value referring to foreign bookrunners and 51% of the total market value. In all sectors the market share held by foreign bookrunners was very significant, and in some sectors close to or even 100% (e.g. Metal & Steel and Retail).

Looking at deal type, 47 IPOs were recorded in the Dealogic database, double that of 2020, worth € 3.1 billion, of which 37 were assisted by at least one foreign bookrunner (€ 2.7 billion). The other relevant deal types were convertible bonds (3 deals, € 2.3 billion) and “follow-on” (second) offerings (24 deals, € 2.1 billion).

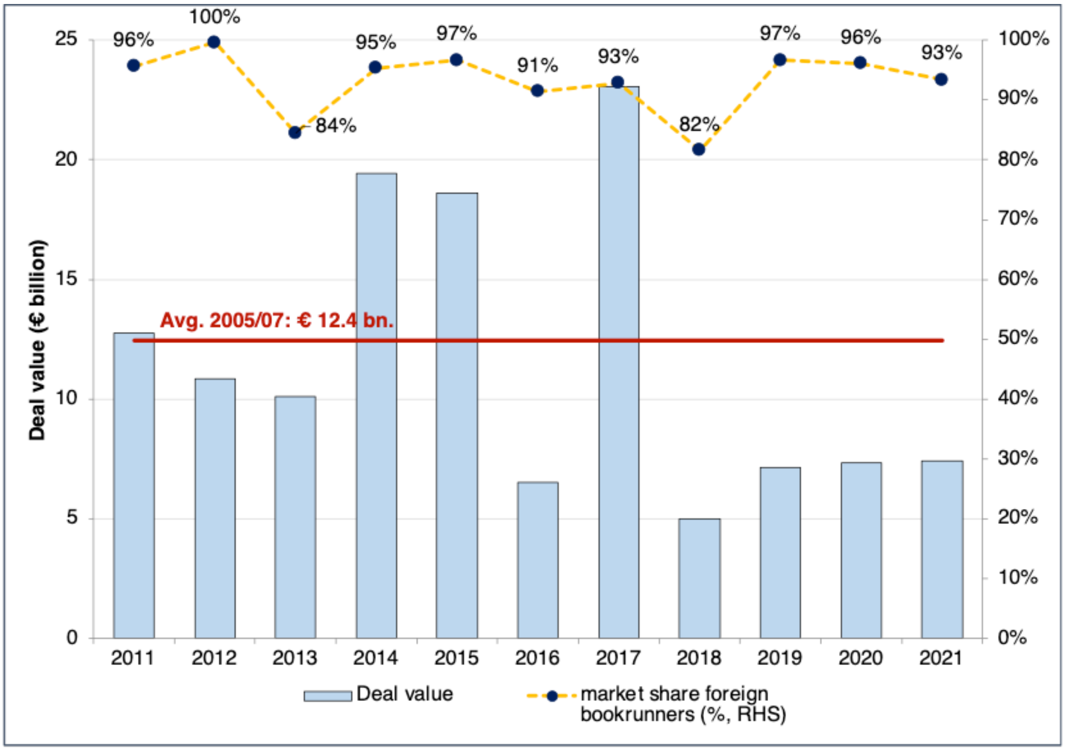


Fig. 21 *Equity capital market: distribution of deal value (Italian issuers, 2011/21, € billion) and market share of foreign bookrunners (%, RHS) –*
Source: elaboration of Dealogic data

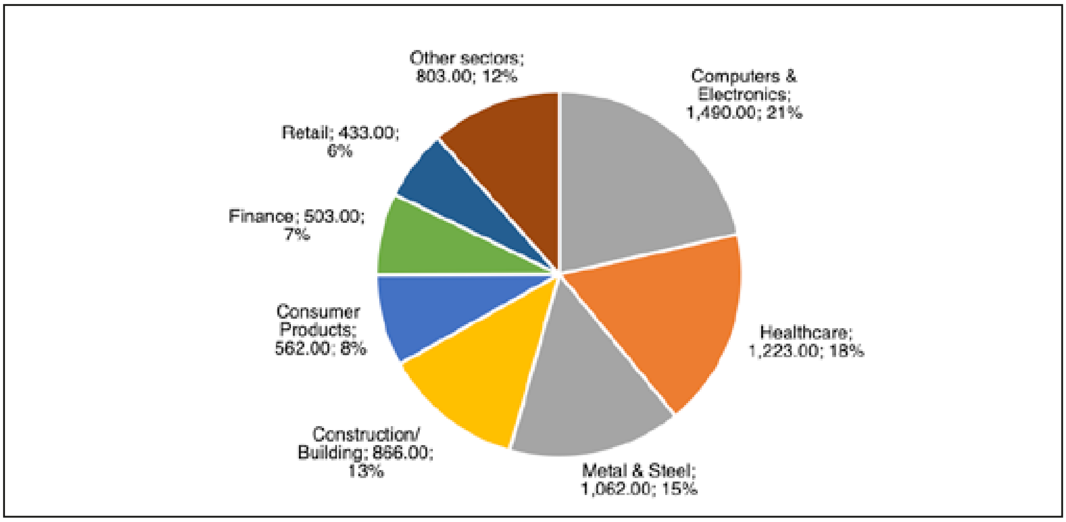


Fig. 22 *Equity capital market: issuances by industrial sector of Italian issuers assisted by foreign bookrunners (2021, top 7 sectors, € billion and %) –*
Source: elaboration of Dealogic data

5.3 Trading on Cash Markets

According to ASSOSIM, the Italian Association of Financial Intermediaries representing the majority of players operating on the Italian financial market, the market share of foreign intermediaries is quite significant, at least in certain segments.

In Euronext Growth Milan, the main Italian Stock Exchange for equity securities, ASSOSIM's members in 2021 accounted for 41% of total market volume. Foreign members had a market share of about 15% of total volume (Fig. 23) and about 36% of value referring to ASSOSIM members.

In 2021, in the Euronext Growth Milan market, 4 out of 28 players are based abroad. Furthermore, 4 of the 10 "most active" players are foreign intermediaries, and of these 2 are the most active intermediaries overall. These two have a total market share of 11%, or about 27% of value referring to ASSOSIM members. Total activity by foreign players make up 73% of the total.

In other market segments of the Italian Stock Exchange (e.g. DomesticMOT, EuroMOT, ETFplus and ExtraMOT), the number and market shares of foreign players are lower. It is noted that figures do not differ significantly from those for the previous year. In 2021, in the DomesticMOT market, foreign intermediaries (4 out of 28 players) handled about 3% of total volume. In 2021 in the EuroMOT market, the share of foreign players (2 out of 28 players) was about 2%.

In the ETFplus market 4 foreign players operate, handling close to 8% of activity, and 3 of them are among the "top 10 most active" intermediaries.

In the SeDEX segment, the market share of foreign players (2 out of 28) in 2021 was close to 5% of total volume. The main foreign financial intermediary is the sixth most active one.

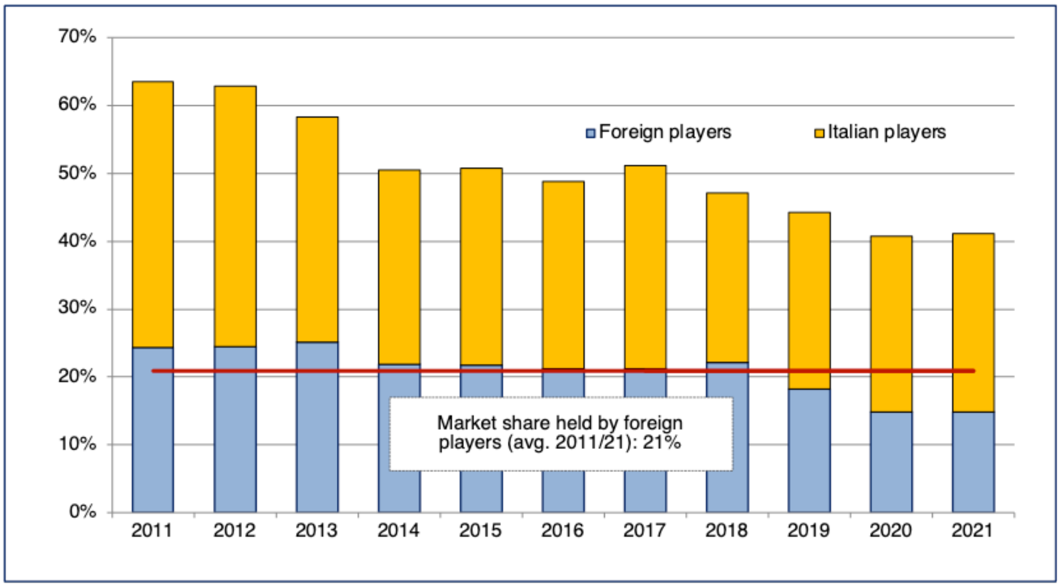


Fig. 23 Recent trends in market shares held by ASSOSIM members (2011/21, % of volumes traded on Euronext Growth Milan market) – Source: elaboration of ASSOSIM statistics.

Chapter 6

Asset Management

In this chapter we look at the role of foreign players in the Italian Asset Management industry. We will refer to both collective and portfolio management and pension funds. Information and data released by Assogestioni and available on the Italian Fund Hub (IFH) website are representative of the entire Italian Asset Management Industry.

According to Assogestioni, at the end of 2021 the market value of Assets Under Management (AUM) increased from € 2,422 billion to € 2,594 billion (+7% YoY). At the end of 2021 AUM stock related to foreign groups totaled about € 889 billion, corresponding to 34.3% of the market (33% end-2020) (Tab. 16).

With regard to collective management (Fig. 24), recent growth is mainly due to the increase in open-end funds (from € 419 billion at end-2011 to € 1,273 billion at end-2021, more than 3 times); closed-end funds, on the other hand, increased at a slower pace, going from € 43 billion in 2010 to € 79 billion in 2021. Over the same period, AUM held by foreign companies significantly increased (+420%), rising from about € 123 billion to € 641 billion in 2021.

Market shares held by foreign companies rose from 26.7% at end-2011 to 47.4% at end-2021.

With reference to portfolio management, AUM increased by about € 767 billion from 2011 to 2021. The market share held by foreign players rose slightly (20%, +1 percentage point). As shown in Fig 25, in the last six years growth has been most significant for pension plan asset management (+35%), followed by retail asset management (+28%) and insurance products (26%); other investment products have risen by about 84%.

Based on 2021 data, foreign intermediaries accounted for about 25.8% of all assets managed by “top 10” players. This percentage goes up to 31.3% if we consider the “top 15” intermediaries and 34.3% considering the “top 20” (Fig. 26).

Within the pension funds industry, the market share of foreign intermediaries decreased slightly, from 57.7% in 2019 to 55.9% in 2021 (Fig. 27). The share held by foreign operators is in any case significantly up on the figure for the end of 2021.

	Dec-2015		Dec-2016		Dec-2017		Dec-2018	
	AUM	%	AUM	%	AUM	%	AUM	%
Collective management	**898.81**	**100**	**949.55**	**100**	**1,062.32**	**100**	**1,013.51**	**100**
Foreign groups	310.51	34.5	326.85	34.4	476.48	44.9	449.93	44.4
Italian groups	588.30	65.5	622.70	65.6	585.84	55.1	563.58	55.6
Portfolio management	**935.30**	**100**	**993.43**	**100**	**1,026.83**	**100**	**1,003.56**	**100**
Foreign groups	137.21	14.7	139.96	14.1	217.83	21.2	213.52	21.3
Italian groups	798.09	85.3	853.47	85.9	809.00	78.8	790.04	78.7
Total	**1,834.11**	**100**	**1,942.98**	**100**	**2,089.15**	**100**	**2,017.07**	**100**
Foreign groups	447.72	24.4	466.81	24.0	694.31	33.2	663.45	32.9
Italian groups	1,386.39	75.6	1,476.17	76.0	1,394.84	66.8	1,353.62	67.1

	Dec-2019		Dec-2020		Dec-2021		Δ2021	
	AUM	%	AUM	%	AUM	%	AUM	Δ%
Collective management	**1,135.79**	**100**	**1,201.64**	**100**	**1,351.26**	**100**	**149.62**	**11.1%**
Foreign groups	514.50	45.3	558.27	46.5	640.70	47.4	82.44	12.9%
Italian groups	621.29	54.7	643.37	53.5	710.55	52.6	67.18	9.5%
Portfolio management	**1,170.99**	**100**	**1,220.04**	**100**	**1,242.99**	**100**	**22.95**	**1.8%**
Foreign groups	228.54	19.5	240.13	19.7	248.35	20.0	8.22	3.3%
Italian groups	942.44	80.5	979.91	80.3	994.64	80.0	14.74	1.5%
Total	**2,306.78**	**100**	**2,421.67**	**100**	**2,594.24**	**100**	**172.57**	**6.7%**
Foreign groups	743.04	32.2	798.39	33.0	889.05	34.3	90.65	10.2%
Italian groups	1,563.74	67.8	1,623.28	67.0	1,705.20	65.7	81.92	4.8%

Tab. 16 Collective and portfolio asset management: AUM trends and market shares held by Italian and foreign asset management companies (2015/21, € billion and %) – Source: elaboration of data from Assogestioni-IFH database

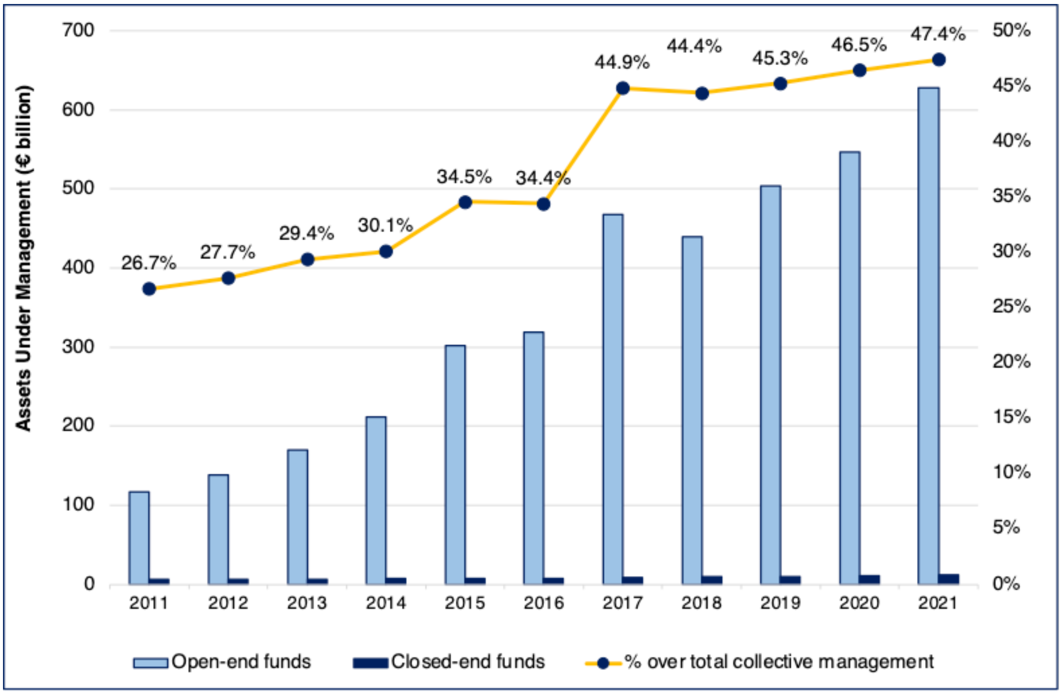


Fig. 24 *Collective management: AUM stock and market shares held by foreign asset management companies (2011/21, € billion and %) –*
Source: elaboration of Assogestioni-IFH database

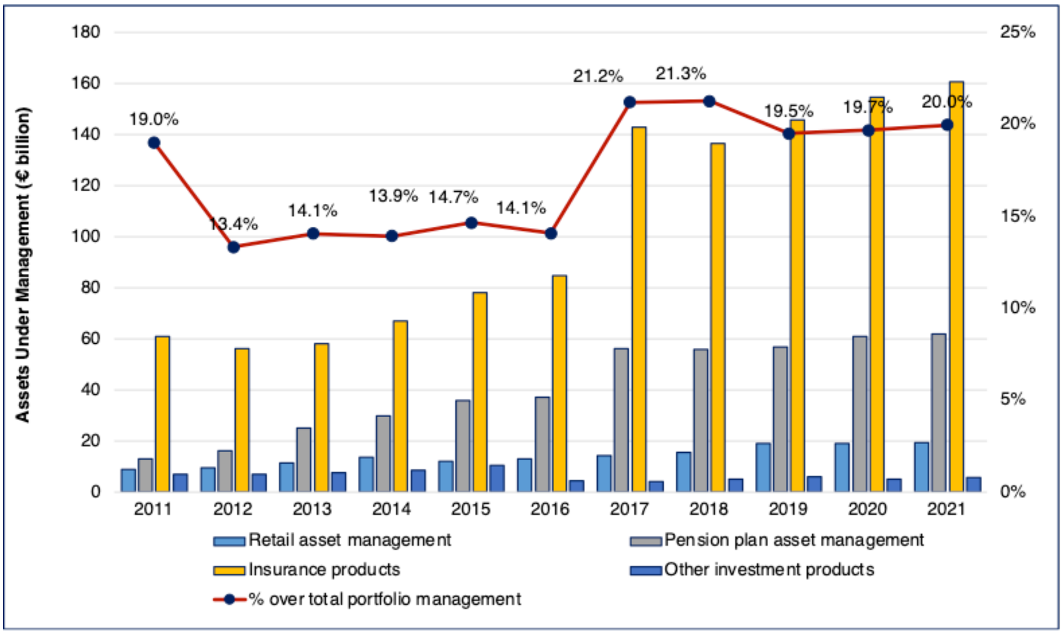


Fig. 25 *Portfolio management: AUM stock and market shares held by foreign asset management companies (2011/21, € billion and %) –*
Source: elaboration of Assogestioni-IFH database

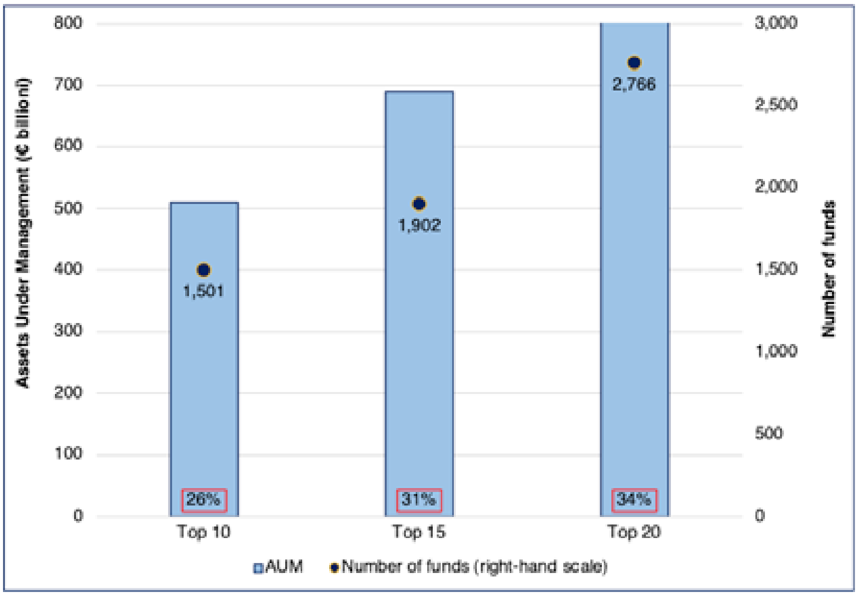


Fig. 26 *AUM stock and market shares held by foreign asset management companies in the "Top 10", "Top 15" and "Top 20" rankings (2021, € million and %) –*
Source: elaboration of Assogestioni-IFH database

Note *red bordered labels indicate the market share held by foreign intermediaries in terms of AUM, out of the total of "Top 10", "Top 15" and "Top 20" groups respectively*

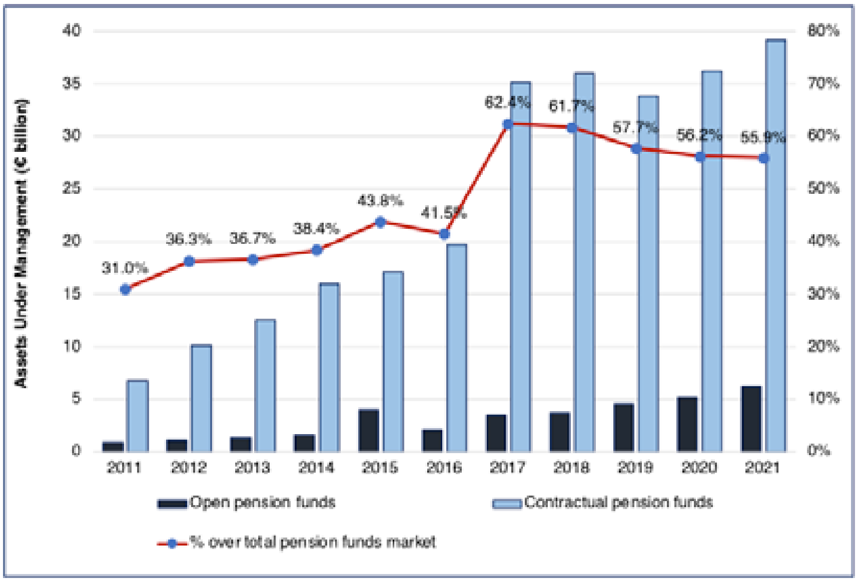


Fig. 27 *Pension funds market: AUM stock and market shares held by foreign asset management companies (2011/21, € million and %) –*
Source: elaboration of Assogestioni-IFH database

Chapter 7

Specialized credit

The Italian factoring market, as started by Assifact, grew compared to the previous year, total annual turnover rising from € 227.8 billion to € 250.7 billion (+10% YoY). This trend followed the dynamics of the economic recovery, with growth consolidating in the second half of the year. For 2022, industry players still expect growth to continue, albeit more moderately, closer to 7% on an annual basis, after a positive first quarter.

With markets in general recovering, at least until the end of 2021, annual turnover for foreign players rose from € 35.6 billion to € 39.3 billion (Fig. 28). The market share held by foreign intermediaries fell to 15.7%.

The Italian consumer credit market grew in 2021. According to the Assofin, Crif and Prometeia Retail Credit Observatory, cash flows rose by about € 8 billion on an annual basis, reaching a value of € 56.1 billion in 2021, boosted by the economic upturn after the negative effects of the pandemic. The market share held by foreign players remained significant, and even increased last year, reaching 54% (Fig. 29). The value of consumer credit granted by foreign players rose to about € 30.5 billion (+ € 4.5 billion YoY).

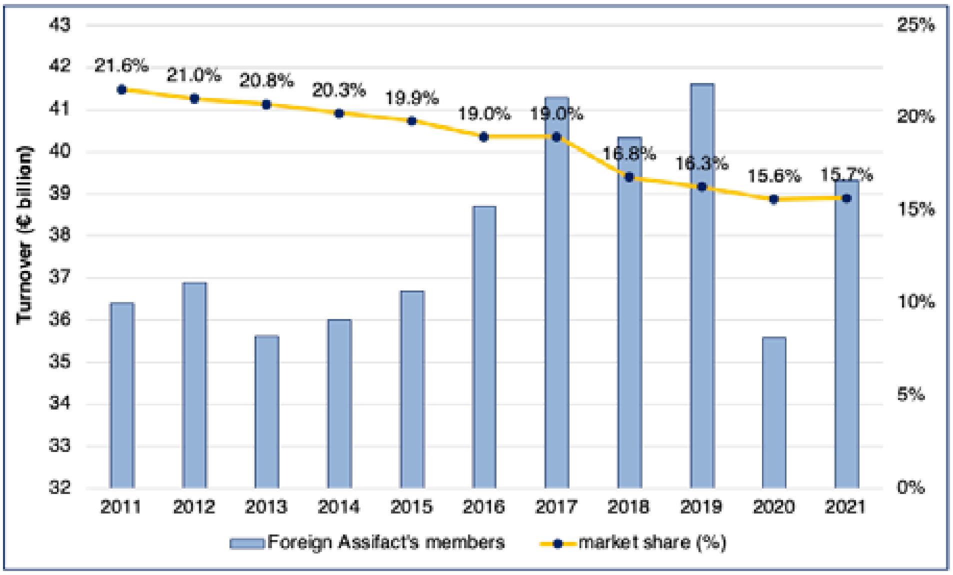


Fig. 28 *Italian factoring market: distribution of turnover and market share of foreign players (2011/21, € billion and %) –*
Source: elaboration of Assifact data

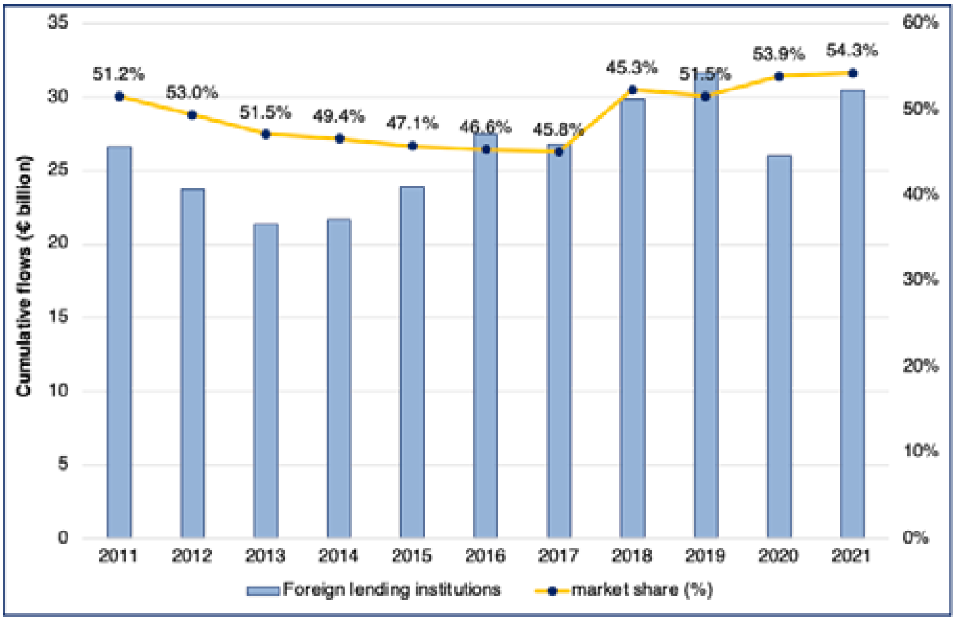


Fig. 29 *Italian consumer credit market: distribution of cumulative flows and market share of foreign players (2011/21, € billion and %) –*
Source: elaboration of Assofin-Crif-Prometeia's survey

N.B.: *Foreign lending institutions are players having prevalent foreign ownership. In the case of mixed-ownership companies, cumulative flows are attributed "pro rata" according to ownership shares.*

Chapter 8

Foreign banks in Europe: a sample analysis

This chapter contains a brief overview of the role played by foreign banks in a sample of European countries (France, Germany, Spain and United Kingdom), and provides a comparison between Italian and European competitors in terms of the presence and market shares held by non-resident operators in the debt and equity markets.

Based on the three latest AIBE Reports, we have compared Italy to the above-mentioned European countries, with a focus on two main sections. Firstly, we analyzed the share of non-resident public debt investors (paragraph 8.1); secondly, we summarized relevant data about the role of foreign-based bookrunners in supporting firms' financing needs, on the basis of issuances reported in Dealogic databases referring to syndicated loans markets and debt and equity capital markets (paragraph 8.2).

8.1 The role of non-resident investors in public debt

The figures reported here are International Monetary Fund (IMF) data, summarized in its periodic report "Fiscal Monitor", which contains several relevant statistics comparing economic and financial indicators on public finance.

The latest publication, released in April 2022, focuses on the relevance of fiscal policies as the world shifted from a pandemic to war scenario. This shift saw continued uncertainty on economic growth, as well as on commodities, and contributed to further fueling inflation. The IFM suggests that Governments' responses will be shaped against this difficult background, with high inflation, slowdown in growth, high debt and tightening credit conditions. Monetary policies are also changing, with interest rates being hiked to fight inflation.

Deficits are falling globally, even if they are expected to remain above pre-pandemic levels. In advanced economies a decline to 113% of GDP is expected by 2024, because of the post-pandemic recovery, while an opposite trend is projected for emerging markets.

With regard to Italy, the general Government debt as a percentage of GDP is expected to fall from 150.6% in 2022 to 142.9% in 2027, a fall of about 13 percentage points from the peak reached during the pandemic, but 8 percentage points higher than the average over the period 2017/19.

With regard to recent trends for general Government debt held by non-resident investors, Fig. 30 shows a significant change in their market share at the end of Q3-2021 compared to the end of the previous year. Germany and France recorded the highest negative change (respectively –9.1% and –7.3%), while changes were lower for Italy and United Kingdom. If we extend the analysis over the medium term (2015/21), the general trend is for further falls, especially for Germany (about –15 percentage points) and France (about –11 p.p.).

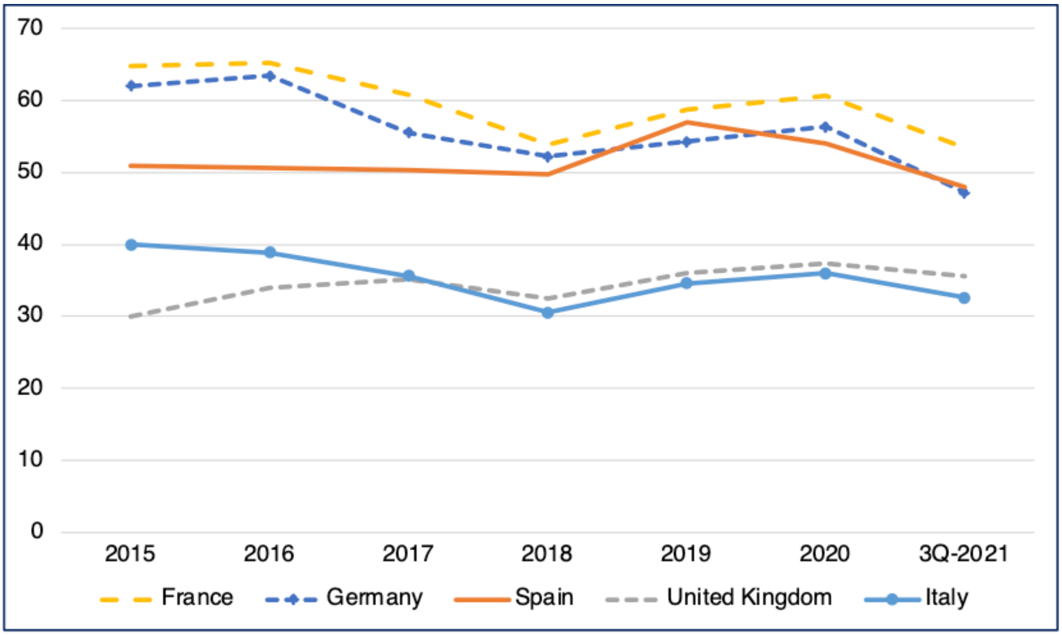


Fig. 30 *Non-resident holdings of general government debt (2015/20 end-of-year, Q3 2021, % of total) –*
Source: elaboration of IFM Fiscal Monitor

8.2 The role of foreign banks in debt and capital markets

To estimate the market share of foreign bookrunners in the four selected countries (other than Italy, already analyzed in Chapters 4 and 5), we focused on the issuances of syndicated loans, as well as on debt and capital markets.

Fig. 31 provides a summary of our main results.

With regard to syndicated loans, market size varies quite significantly among the sample. The whole market size (like the sum of the 5 domestic markets) increased by about 2% (from € 620 billion to € 633 billion), but different local trends can be highlighted. Italy and Germany posted the highest annual growth rate, the Spanish and French markets declined, while United Kingdom remained constant, and was confirmed as the biggest market among the sample.

A common feature is the relevance of the market share held by foreign players (both solely bookrunners and international pools of bookrunners that also include domestic financial intermediaries). The average market share held by non-resident bookrunners is 73% (69% in 2020). There were no relevant differences, and even in Spain, the country with the lowest market share, the share rose sharply in 2021, moving from 49% to 62%.

Italy and Spain are characterized by a large number of small deals: the average size was € 190 million and € 118 million respectively.

In 2021 DCMs decreased (by double digit figures in 4 out of 5 countries, on average –14% YoY), the exception being United Kingdom (+10%). Germany, UK, and France are the largest markets. The size of German and British markets are more than double the Italian one. The presence of foreign players was quite similar and relevant in all countries. If we consider jointly the market share held by solely foreign bookrunners and that held by international pools of bookrunners, a value of 90% is reached in terms of total deal value (+1 percentage point compared with end-2020 data): the percentage of solely foreign bookrunners rose slightly from 13.7% to 17.2%, while – on the other hand – the share for international consortia, encompassing non-resident and domestic players, went from 75.6% to 72.6%.

The economic upturn after the pandemic in 2021 was particularly relevant in ECMs: the total market value for these 5 countries moved from € 101 billion to € 153 billion, of which about € 114 billion referring to Germany and UK. The highest growth rates were recorded by Spain (80%) and Germany (76%). As analyzed in Chapter 5, the market size of the Italian ECM market remained stable, there was growth only in the number of closed deals. The average deal size varies significantly: Italy has the lowest size (€ 101 million), while Spain confirmed the relevance of large deals, the average deal size being close to € 600 million, due to the presence of 4 “mega deals” out 23 total closed deals, making up about 75% of the market size (€ 10.3 billion out of € 13.7 billion).

The role of foreign bookrunners is crucial everywhere, with an average market size of about 91%, headed by the role played by international pools of bookrunners (65%, vis-à-vis 56% in 2020), while the market share referring to solely non-resident bookrunners fell from 37% to 26%. The positioning of foreign bookrunners within the Italian ECM was in line with the analyzed sample.

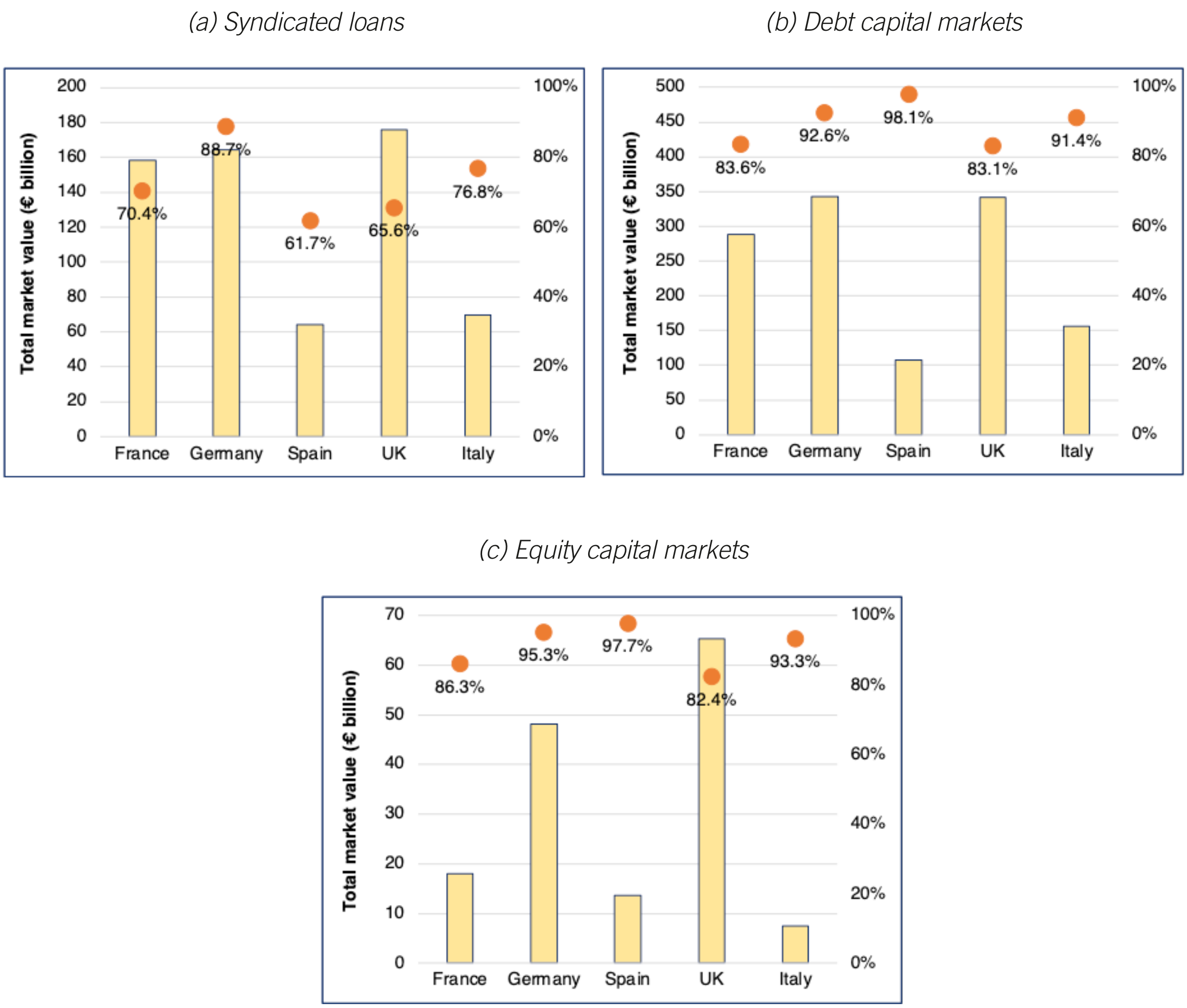


Fig. 31 *Annual deal value and market share of foreign intermediaries (2021, € billion and %) – Source: elaboration of Dealogic database*

Chapter 9

The challenge of ESG

According to major analysts, ESG is rapidly transitioning from an "individual" and separate firms' initiative to undertake, to a firms' core strategy. Evidence supports that companies that are involved with a strong ESG strategy tend to perform better than other, over a long-term horizon.

As known, ESG is an acronym for Environmental, Social, and Governance, relating to the standards of social responsibility. These three major categories are divided into several subcategories, that are employed to focus organization's activities on detailed goals and specific engagements in environmental, social and governance.

Long-term goals are aligned with United Nations SDGs (Sustainable Development Goals) and the Paris Climate Agreement, signed in 2015. More recently, the EU Action Plan on Sustainable Finance specified three "key actions" towards a more sustainable economy, an effective risk management able to include sustainability, as well as transparency and longtermism.

ESG approach as "business orientation" and opportunity can offer significant competitive advantages. According to PwC's survey, for example, venture capital and corporate investments in start-ups that develop tech solutions oriented to climate change between 2013 and 2019 grew at a faster rate than the market.

In the European Union, moreover, the new Corporate Sustainability Reporting Directive (CSRD) will require large companies and all listed companies (micro-enterprises are excluded) to report on their sustainability. This progress in regulation will help regulators, investors, communities, and stakeholders more in general to be able to appreciate the ESG engagement of firms and organizations. By the enforcement of this directive, about 50,000 companies in European Union will follow detailed and homogenous sustainability reporting standards, a share that corresponds to about 75% of the total turnover generated by European companies[4].

With these new standards, the requirements will also include information disclosure relating to intangible and intellectual capital, a closer alignment with the Sustainable Finance Disclosure Regulation and the EU Taxonomy, and the collection of more forward-looking information that, for example within the banking sector, will become more and more relevant for rating, credit quality and financial investments.

Social responsibility is growing in all industries and sectors, and it will be a concern and a challenge for all organizations, regardless of their nature, their

[4] Gtmhub-OKR Advisors, "Accelerate Sustained Adoption for Meaningful & Measurable Results", White Paper, 2022.

business, or their size. Customers and investors are demanding a transparent sustainability report or ESG report, with the purpose to evaluate firms' long-term strategies in sustainability and also to monitor firms' performance over time and especially the way as these ESG drivers are impacting on financial and economic results. Therefore, all organizations have to able to show their progress towards ESG goals: customers, investors, employees and Governments as well, with regard to their specific role, are demanding a stronger engagement and a clear ESG strategy (i.e., more sustainable products and services, an alignment with core values, the creation of system of penalties and incentives, and so on).

The challenge on ESG topics can be particularly crucial for banking and financial sector, due to its importance within modern economies and the specific role assigned to "Finance" by the EU Action Plan on Sustainable Finance.

For example, according to some estimates by Deloitte Center for Financial Services (DCFS), within the asset management industry, investment managers are responding to the demand of ESG-oriented funds by potentially launching up to 200 new ESG funds, more than double the period 2018/20. It is worthy to be noted that also investment management firms can benefit of these new scenarios and of these changes in investors' demand, because ESG funds tend toward active management5.

With regards to banking activities, banks have long been concerned with sustainability and according to some analysts this trend towards sustainability has the potential to transform the banking system at a global level, for example due to the impact on reputation and business success. Banks are asked (and actually they are already engaged) – among other – to review their business strategies with an orientation to ESG, to define and to implement sustainability strategies, to be aligned with the regulatory framework on these topics. The offer of sustainable products in financing the customers, the consideration of ESG risks in pricing and risk management processes and within the capital charge to face operational and regulatory requirements, and the inclusion of ESG criteria in the distribution process are only few examples of the relevance of these topics within banking activities, once that sustainability was included in the business strategy.

The orientation of the banking business towards sustainability highlights also ESG risks that are (at least in part) new: environmental, social and governance risks that have an impact on banks' profitability and liquidity conditions, both in a direct and indirect way. Moreover, both a financial and a non-financial dimension can be observed. On the one hand, we have a direct impact on the bank's business model; on the other, the extra-financial dimension considers the impact a bank has on the environment and the society: in these terms, the questions about reputational risks can be particularly crucial.

At the same time, moreover, these risks also lead to some business opportunities: for example, it is worthy to mention specific actions for climate change and green transition that can improve economic efficiency, reduce operating costs and increase profitability, to collect forward-looking data on customers in screening and monitoring on lending activities (ESG rating as the final step for pricing and evaluation).

ESG risks and issues, as well as their associated opportunities are becoming more and more relevant for financial institutions: these challenges can modify the long-term orientation and the business strategies and we will observe further steps and enhancements in the upcoming years.

[5] Deloitte Center for Financial Services, "Advancing environmental, social, and governance investing", Deloitte Insights, 2020

List of AIBE Member Banks

The list is updated at January 1st, 2022.

Aareal Bank Ag
Arab Banking Corporation SA
Banco Bilbao Vizcaya Argentaria SA
Banco Santander SA
Bank of America Europe DAC
Bank of China Ltd. Milan Branch
Bank of Communication (Luxembourg) S.A.
Barclays Bank Ireland Plc.
Bayerische Landesbank
Bhw Bausparkasse Ag
BNP - Paribas
BNP - Paribas Securities Services
China Construction Bank (Europe) SA
Citibank N.A.
Commerzbank Ag
Cooperatieve Rabobank U.A.
Crédit Agricole Corporate and Investment Bank
Credit Suisse Ag
Deutsche Bank
EFG Bank (Luxemburg) S.A.
Euroclear Bank
HSBC Continental Europe
Industrial and Commercial Bank ff China (Europe) S.A.
ING Bank N.V.
J.P. Morgan Chase Bank
KNC Bank N.V.
Mizuho Bank Limited
MUFG Bank, Ltd.
Natixis S.A.
Nomura Financial Products Europe Gmbh
Pictet & Cie
SMBC Bank EU Ag
Société Générale
State Street Bank Gmbh
The Bank of New York Mellon SA/N.V.
UBS Europe SE
Western Union International Bank Gmbh

Representative Offices

Banque Misr
Caixa Bank SA
Crédit Industriel et Commercial

The Authors

Carlo Arlotta
Partner, Consilia Business Management Srl, Milan
Lecturer in *“Compliance and Risk Management”*
Department of Economics, University of Insubria, Varese/Como

Rosa Alba Miceli
Division of Banking Supervision, Foreign Banks, Bank of Italy, Milan offices

Alessandra Piro
Senior Manager, Consilia Business Management Srl, Milan

Valentina Riviera
Division of Banking Supervision, Foreign Banks, Bank of Italy, Milan offices

Andrea Uselli
Associate Professor in Financial Markets and Institutions
Department of Economics, University of Insubria, Varese/Como

The report was edited by Carlo Arlotta and Alessandra Piro (Consilia Business Management Srl) and Andrea Uselli (University of Insubria).

Paragraph 3.2 was written by drafted by Rosa Alba Miceli and Valentina Riviera, Division of Banking Supervision, Foreign Banks, Bank of Italy, Milan offices.

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