FOREIGN BANKS AND FINANCIAL INTERMEDIARIES IN ITALY

The support to Italian economy in 2014

June 2015

Associazione fra le Banche Estere in Italia

in cooperation with

The report was edited by Carlo Arlotta and Alessandra Piro (Consilia Business Management Srl) and by Andrea Uselli (University of Insubria). The whole report is the result of a collaboration of the authors, who share responsibility thereof.

With regards to the actual drafting of report, Carlo Arlotta and Alessandra Piro wrote chapters 2, 3 and 5 and paragraph 7.4. Andrea Uselli wrote chapters 1, 4 and 6 and paragraphs 7.2 and 7.3.

The paragraph 7.1 was written by Emanuela Atripaldi and Michela Valsecchi, Division of Banking Supervision, Bank of Italy, Milan offices.

AIBE thanks Bank of Italy and all Associations, foreign banks members and market operators that provided data and information for the purpose of the report.

The report is updated with information available at the June 12th, 2015.

CONTENTS

Highlights

79	Foreign banks in Italy, end-2014
34%	Domestic public debt owned by non-residents, end-2014
339 mld.	Asset Management: assets under management by foreign banks and intermediaries, end-2014
62-75%	Syndicated loans and issuances on debt capital markets (average share held by foreign banks, 2005/14)
73%	Foreign raised funds in Italian Private equity and Venture capital market in 2014
55%	Italian Project Finance market (average share held by foreign banks, 2005/14)
53%	Share of incoming cross-border deals over Italian M&A closed deals in 2014
82%	Share of foreign institutional investors over the total number of “qualified investors”, Italian Stock Exchange, Star segment, 2014
65%	Trading activities on MTS (Cash Market e Repo Market) in 2014
47%	Share of foreign banks and intermediaries in Italian consumer credit market, 2014
45%	Share of foreign banks and intermediaries in Italian leasing market, 2014
20%	Share of foreign banks and intermediaries in Italian factoring market (annual turnover, 2014)

FOREWORD

The Association of Foreign Banks in Italy (*Associazione fra le Banche Estere in Italia*, AIBE) releases its Sixth Annual Report on presence mode and activities of foreign banks in Italy.

The current report analyzes and updates at the end of 2014, the data on the market share held by foreign banks and financial intermediaries operating in our country. Report analyzes data and information with regards to their main business lines.

Foreign banks achieve the satisfaction of financial needs of customers – retail, corporate and Government entities – by offering a wide range of high quality and high "added value" products and services.

First of all, in Chapter 1, the report updates Italy's macro-economic condition, with regards to foreign investments' attractiveness, as well as to operating characteristics of Italian foreign-owned companies.

Chapter 2 summarizes some data to analyze the role of foreign investors on Italian Government debt and Italy's external debt.

Chapters from 3 to 6 are devoted to the main financial markets' sectors and business lines in which foreign banks and intermediaries are "primary" operators.

The report was enriched also this year with the valuable contribution, within Chapter 7, of leading members of the Bank of Italy, Milan offices, whom I thank for the information provided and for the analysis carried out on the composition of the loans and deposits of foreign banks in Italy.

Guido Rosa
AIBE President

CHAPTER 1. THE INTERNAZIONALIZATION OF ITALIAN ECONOMIC AND PRODUCTIVE SYSTEM: SOME COMPARATIVE DATA

According to a number of sources, in the last years, national and foreign investors have found Italy less attractive than other countries. As shown in the 2014-2015 Global Competitiveness Rank released by the World Economic Forum, Italy is 49 out of 144 countries. Moreover, according to the "Doing Business 2015 – Going Beyond Efficiency" rank, released by World Bank, Italy is ranked 56 out of 189 economies in the ease of doing business.

But the wind is changing. The Government is renewing the trust in the Italian economic and industrial system. Some reforms have been set in place, especially with the target of doing business easier. Moreover, positive changes in political, fiscal and regulatory systems have started. High expectations exist, in order to positively affect FDI (Foreign Direct Investment) inflows from abroad. The investment attractiveness is one of the main issues that the Italian Government is facing. Following the Law "Destination Italy" (Law 9/2014) – which contained a set of measures designed to promote the attraction of foreign investments and the competitiveness of Italian firms –, the "Investment Compact Act" (D.L. 45/2015 – Urgent measures for the banking system and investment) demonstrates its commitment on making Italy "open for business". This Act contains a set of measures aiming at:

- reassuring investors (especially from abroad) about the soundness of our political and economic system;
- fostering the development of small and medium-sized enterprises, especially in the access to capital markets;
- promoting innovation and R&D activities.

More in depth, among others, the Act provided a new regulatory framework for the "popolari" co-operative banks, aimed to create a "Service company" to support the capitalization, corporate restructuring and industrial consolidation of Italian companies in temporary financial distress, as well as favored the "innovative SMEs", which can benefit from the measures addressed to innovative start-up companies (tax benefits for investors and, possibility to raise capital through web crowdfunding). In order to attract especially foreign investors the "Investment Compact Act" also extended the tax exemption on revenues generated from non-leveraged funds only to all kind of funds. Foreign institutional investors, operating in “white list” countries and under banking supervision, can now participate indirectly as lenders and benefit from this tax exemption.

New rules are aimed at providing a business friendly and competitive environment. With regard to foreign direct investments, in particular, the scope is providing more certainty to investors, with reference to taxation, business rules and procedures.

First markets’ reactions seem to be positive. For example, the 2014 A.T. Kearney Foreign Direct Investment Confidence Index® reported a comeback of Italy to the index for the first time since 2005[1]. As mentioned in the A.T. Kearney’s report, Italian major economic problems refer to ongoing recession, high public debt, and a government hamstrung by power struggles. In the 2015 Index®, Italy jumped eight position, from 20th to 12th. Despite weak economic growth, Italy continued to attract the interest of foreign investors: there are high expectations towards labor market, after that Jobs Act has released[2]. At the same time, foreign investors are interested in other reforms, concerning Public Administration expenditures and the reform of judiciary system.

Italian companies have been “targets” in a several M&A recent deals: in particular, a significant amount of investments came from Qatar and Kuwait sovereign funds, and Chinese investors.

1.1 The attractiveness of Italian economic system: some evidence from FDI statistics

On a worldwide basis, according to the “World Investment Report 2014” released by UNCTAD, in 2013 the global inflow of FDI (Foreign Direct Investments) amounted to $ 1,451 billion, with an increase compare to previous year of 9% (+ $ 120 billion). At the same date, the accumulated stock stood at $ 25,464 billion.

The Report reveals an encouraging trend: after a decline in 2012, global FDI flows rose by 9% in 2013, and the growth is expected to

[1] A.T. Kearney, “*The A.T. Kearney Foreign Direct Investment Confidence Index. Ready for Takeoff*”, 2014.

[2] A.T. Kearney, “*The A.T. Kearney Foreign Direct Investment Confidence Index. Connected Risks: Investing in a Divergent World*”, 2015.

continue in the years to come. International investments have a great potential in order to complete the recovery after the global crisis. A cautious optimism is came back. UNCTAD projects that FDI flows could rise to \$ 1.6 trillion in 2014[3], \$ 1.7 trillion in 2015 and \$ 0.1 trillion more in 2016. The largest increases are expected in developed countries. Nevertheless, some risk remain, related – especially – to policy uncertainty and regional instability in some emerging markets.

In developed countries, inflows to Europe were up by 3% compared with 2012: Germany, Spain and Italy reported a substantial recovery in their FDI inflows in 2013.

In 2013, Italy saw an amount of FDI inflows equal to \$ 16.5 billion (the amount was \$ 93 million in 2012), or the 7% of total FDI inflows referred to Europe or European Union (EU-28, 28 countries). Italy is ranked 7th among EU-28 countries: Spain, United Kingdom and Luxembourg in 2013 attracted an amount of FDI inward more than double compared to Italy. The weight of Italy was 1.1% with reference to the worldwide amount of FDI inward, but the flow of investments counts for less than 1% of Italian GDP.

In last years, the time series of FDI towards Italy has been quite volatile. In the 3y-period 2005/07 (commonly used as a pre-crisis period) the mean of annual FDI inward was about \$ 36.6 billion, in 2008 Italy experienced net divestments equal to \$ 10.8 billion and the mean over the period 2009/13 was equal to \$ 16 billion, less than a half compared to the pre-crisis period.

In 2013, expansion projects and greenfield FDI – for start-up or expansion of productive activities, technology and R&D investments – with destination to Italy amounted to \$ 3.9 billion (–3% on annual basis and –62% compared to the annual mean over the 2005/07 period). With regards to these projects, in 2013 Italy counted for 3.1% of "greenfield investments" having Europe as a destination.

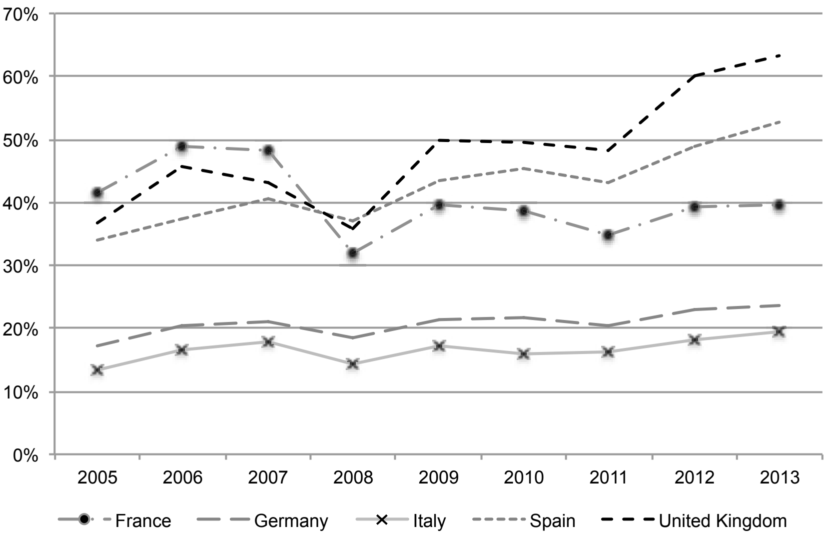
If we analyze FDI stock, we may confirm that Italy is attracting much less foreign investment capital than comparable EU countries over a prolonged period, probably also due to structural competitiveness deficits. In 2013, the stock of annual inward investments towards Italy was about \$ 403.7 billion (+11% YoY), with a more dynamic trend compared to EU-28's stock (+7% YoY). Over the period 2005/13, Italian

[3] 2014 data will be released at the end of June 2015.

FDI stock was – on average – 4.8% of EU-28's stock, and 1.9% of the global stock. However, the trend is slightly decreasing.

Figure 1 shows the trend of the ratio FDI stock/GDP over the 2005/13 period for a sample of big European countries (France, Germany, Italy, Spain, and United Kingdom). Among the five largest EU countries, Italy always had a much lower ratio FDI stock over GDP than Spain or the UK. Germany and France are in the middle[4]. The global economic crisis did not change significantly the relative positions, except for the fact that France has fallen to third place. Italy remained at the bottom of the table, also because much of the Italian industrial sectors are made up of small and medium-sized enterprises. The trend of the ratio is slightly increasing.

Fig. 1 – Inward FDI stock (% of GDP, year-end data) – Source: Own elaboration on OECD data



Most recent analysis suggest that international markets are ready for takeoff and, probably, the corner has been turned. Within Europe, for example, significant expectations are related to the success of QE instrument, decided by ECB in order to stimulate liquidity within European credit markets. Moreover, on a worldwide basis, a number of

[4] Vetter S., "*Recent trends in FDI activity in Europe. Regaining lost ground to accelerate growth*", Deutsche Bank Research, August, 21st, 2014.

big corporations are ready to invest huge amount of cash reserves into productive investments, in order to accelerate global economic growth. Italian companies and market offer interesting opportunities, with attractive risk-adjusted returns. Italy has important winning factors. For example Italy is the 2nd manufacturing economy in Europe and the 5th globally; in 2012, 935 Italian products out of 5,117 merchandized products occupied leadership positions in foreign trading; according to the Trade Performance Index, Italy is the 2nd most performing country (over 189 countries) in 14 macro-sectors in manufacturing.

The Italian market is still of great interest to foreign investors. They need certainty and a better business climate and structural economic reforms: Jobs Act and tax decree on foreign investments are, for example, first partial signs that the long-awaited structural changes are going to be effective.

However, a number of opportunities exist. And several positive signals occurred in last year. Italy became a growing destination for China's acquisitions in 2014: in particular, Italy stood at 2nd place, after United Kingdom, among "top five" European recipients of Chinese investments ($ 3.5 billion). They represented 27% of foreign investments in Italy. Chinese Government set up a five-year plan for Italy, with acquisitions, industrial partnerships and distribution agreements in a number of sectors (food, logistics, tourism, pharmaceutical and healthcare industries).

Italian Government has recently removed Singapore from two "black lists" on the non-deductibility of costs and on Controlled Foreign Companies (CFC). These new opportunities may boost the willingness to invest in Italy by Singapore' investments funds. Some acquisitions in logistics, retail sector and pharmaceutics have been completed in recent years. There is room to reinforce cooperation, as Italy is starting to be perceived different. Also Italy's timely access to the nascent Asian Infrastructure Investment Bank (AIIB) demonstrates that things are changing[5].

However, some weaknesses remain. And they are well known. The Italian economy's internationalization process is smaller compared to European competitors[6]. Foreign investments shifted from finance and

---

[5] Fatiguso R., "*New investments from Singapore seen in the wake of Minister Padoan's trip*", Italy24, Il Sole 24 Ore, April, 10th, 2015.
[6] Bricco P., "*Internationalization gains momentum, more Italian companies go abroad*", Italy24, Il Sole 24 Ore, May, 18th, 2015.

real estate sectors to manufacturing, but – in most of cases – this resulted into a fragmented and widespread internationalization process. As mentioned before, the level of FDI inward is lower than "close" competitors, as well as the weight of FDI inflows and FDI stock on GDP, while – at the same time – the ratios' volatility is quite high.

The Italy's international investment position (IIP)[7] remained negative between 2008 and 2013, with a performance lower than other Eurozone countries. In relation to GDP, the IIP went down from –24.7% (2008) to –30.7% (2013). In 2014 the ratio partially recovered till to –27.7%. France showed a substantial stability, from –13.3% (2008) to –16.4% (2014), while Germany pointed out a significant improve, from 23.2% to 36.4% over the same period. Referring to 2014 data, the simple mean of net IIP/GDP ratio of EU-28 countries is equal to –41.2% (so we may say that Italy is placed over the mean), but the figure is influenced by the very high negative values for Cyprus (–165.1%), Greece (–121.9%) and Portugal (–111.6)[8]. On average, South-East Europe countries show a lower performance of this indicator, because of more severe recession and public debt and sovereign risk's crisis.

In the "Global Competitiveness Report 2014-2015", edited by the World Economic Forum, Italy is ranked 49 out of 144 countries. Despite a stable score compared to last year, the Report underlines a deterioration in the functioning of institutions (Italy is ranked 106th), a poor assessment on government efficiency, and some macroeconomic concerns resulting from the large public debt. Moreover, Italian companies suffer from weak access to financing (139th) and a high tax rate (134th)[9], that affects their investment capacity, productivity and efficiency. Nevertheless, the Report hopes that the reform program in place should help in addressing some of these weaknesses, to further exploit our competitiveness strengths, notably the sophisticated business community (25th), the good potential to innovate (39th) and the large and diversified market (12th).

In the ranking released by World Bank and focused on the ease of doing business (2015 edition), Italy is ranked 56 among 189 countries. A

[7] The international investment position records the stock of financial assets and liabilities in relation to non-residents. It is used to evaluate a country's solvency.
[8] Eurostat, "Net international investment position - annual data", web database available at http://ec.europa.eu/eurostat/tgm/table.do?tab=table&language=en&pcode=tipsii10.
[9] World Economic Forum, "*The Global Competitiveness Report 2014–2015*", Geneva, 2014.

number of "pillars" are investigated, for example starting a business' procedures, dealing with construction permits, getting credit, paying taxes, etc. Italy's positioning in each parameter is quite variable. The worst score relates to enforcing contracts' valuation[10]: Italy is ranked 147 out of 189 countries, and the time estimated to resolve a dispute, counted from the moment the plaintiff files the lawsuit in court until payment is about 1,185 days (compared to 539.5 days for OECD high income's countries, and about 3 times the days required in France and Germany).

The valuation is negative as well also in paying taxes. Italy is ranked 141th, with a total tax rate equal to 65.4% of profit (Germany 48.8%, Spain 58.2%).

In last year, Italy improved his ranking in "starting a business" indicator, from 61st to 46th position (as in "*Doing Business 2015*" Report): procedures for starting a business and registering a firm are easier than in past. The total number of procedures required to register a firm is 5 (as in France), as well as the number of days to its registration, well below the mean referred to OECD high income's countries (9.2 days) and to EU-28 countries (14.6 days).

These rankings, of course, provide a partial "picture" of the competitiveness of a country. However, they are useful in identifying its strengths and weaknesses, in order to track the path of structural reforms and growth policies. International investors have appreciated Italian Government's actions in a number of policy fields (e.g., competition, Public Administration, business simplification, labor market) and the most recent data about M&A deals and investments from abroad are quite encouraging.

A final remark about Milan Expo 2015. According to some surveys, the Universal Exposition has – at the moment – a quite low impact on international investors' expectations. As known, Expo is focused on the food sector, which received only marginal attention from foreign investors[11]. On the contrary, they were mainly focused on energy, TLC and pharmaceutical sectors. However, if we look to recent Chinese investments in Italy, we may observe that China is the largest foreign

---

[10] Enforcing contracts is measured as "*the ease or difficulty of enforcing commercial contracts. [...].This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment.*" All definitions in use and detailed are available at http://www.doingbusiness.org/data/exploreeconomies/italy/.

[11] Cappellini M., "*Foreign capital eyes Italy, as it rises in A.T. Kearney's ranking of most appealing countries for investors*", Italy24, Il Sole 24 Ore, May, 4th, 2015.

investor of Expo 2015, with the biggest delegation and three pavilions. Food and technology for the food industry, as well as logistics, tourism, IT and healthcare industries are very important for Chinese investors. Expo, as a consequence, is a great opportunity to build future partnership and the huge retail Chinese markets have to be a target not to be missed also by Italian firms within their internazionalization strategies.

According to the most recent estimates, Milan Expo will have about 20 million of visitors, of which about one-third from abroad, and will generate approximately € 10 billion worth of added value and about € 5 billion in tourism. The public sector has invested € 1.3 billion in the event, partner companies are contributing about € 350 million, while foreign investments – coming from more than 130 participating countries – are expected to worth about € 1 billion[12].

On the basis of these numbers, Expo 2015 is a unique opportunity for Italy, to attract investors and consumers from all over the world, to boost economic recovery and to spread "*Made in Italy*" label. Italian companies, as well as our organizational skills and event management, will be in the global spotlight.

The Milan Chamber of Commerce calculated[13], over the period 2012-2020, the expected added value of the event, as well as the additional production that – directly or indirectly – can be related to Expo 2015. Estimated added value is about € 10 billion, while the additional production in Italy is valued about € 23.6 billion, of which about a half to be obtained after 2015. About the impact on employment, the volume of business expected over the period 2012-2020 could generate about 191,000 new jobs in Italy, especially in tourism, business services and industry, and will launch about 10,000 new start-up companies. Moreover, the Milan Chamber of Commerce's analysis underlines that the expected impact of Milan Expo is beyond these figures. Actually, there are some "intangible benefits" relating to the strengthening of international business networks, the development of "*Made in Italy*" products, and the raising of the Italy's profile over the world.

---

[12] Sala G., "*Expo Milano 2015 a springboard to attract investment in Italy: before, during and after the universal Exhibition*", published on www.etribuna.com on 18th February 2015.

[13] We refer to information and figures reprinted in Biraghi G., De Sanctis A., and Ballarini L., "*#Expottimisti*", Secolo Urbano, 2014, www.expottimisti.it.

1.2 The presence of foreign-controlled enterprises

According to the latest annual survey of "*Inward FATS*" edited by ISTAT (National Statistical Institute) referred to the structure and activities of foreign-controlled enterprises, at the end of 2012 in Italy there were 13,328 foreign-controlled enterprises (Multinational Enterprises, MNEs). They were mainly active in industrial sectors 9,597 companies (72%), while the remaining – 3,731 companies – are operating in services sectors.

Compared to 2011 data, the annual change in the number of MNEs is negative and equal to about –200 units (–1.5%). The change is negative as well in the number of employees (1.19 million, –0.6%) and in the flow of economic value added. This indicator, at the end of 2011, stood at about € 93 billion, with a decrease of about € 3.5 billion. The annual change of turnover, on the contrary, is positive: the flow referred to 2012 is equal to € 505 billion, with an increase YoY equal to € 12 billion.

Table 1 summarizes these data.

Tab. 1 – Main data related to foreign-controlled enterprises operating in Italy (amounts in € million, % calculated on the total of foreign-controlled enterprises, year-end data) – Source: Own elaboration on ISTAT data

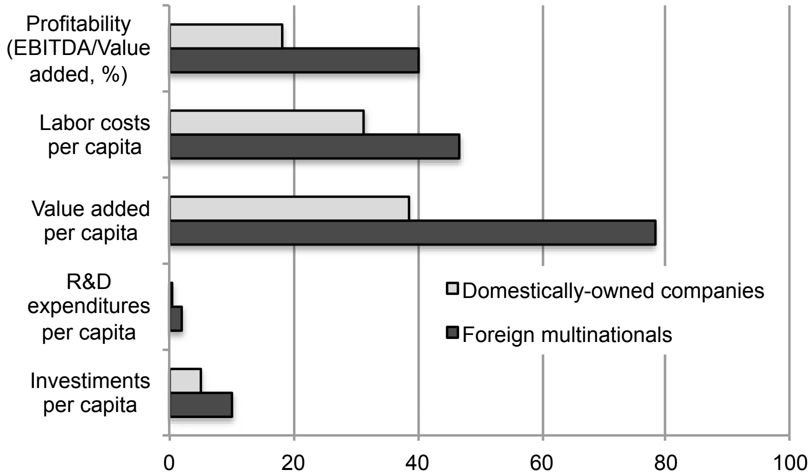
	2005		2011		2012	
	Values/ flows	%	Values/ flows	%	Value/ flows	%
Number of foreign-controlled firms	**14,012**	**100**	**13,527**	**100**	**13,328**	**100**
Industry	4,108	29.3	3,669	27.1	3,731	28.0
Services	9,904	70.7	9,858	72.9	9,597	72.0
of which: financial and insurance activities	*562*	*4.0*	*537*	*4.0*	*534*	4.0
Number of employees	**1,175,235**	**100**	**1,198,130**	**100**	**1,190,459**	**100**
Industry	497,940	42.4	445,373	37.2	447,740	37.6
Services	677,295	57.6	752,757	62.8	742,719	62.4
of which: financial and insurance activities	*34,538*	*2.9*	*67,866*	*5.7*	*67,376*	*5.7*
Turnover	**386,868**	**100**	**492,989**	**100**	**505,047**	**100**
Industry	164,570	42.5	208,396	42.3	237,283	47.0
Services	222,298	57.5	284,593	57.7	267,764	53.0
Value added	**67,522**	**100**	**96,580**	**100**	**93,057**	**100**
Industry	35,296	52.3	41,433	42.9	41,394	44.5
Services	32,226	47.7	55,147	57.1	51,663	55.5

The weight of foreign multinationals is particularly significant considering both the contribution to major economic aggregates for industry and services: MNEs have a weight of 7.1% in the number of employees, 16.6% of turnover and 13.5% of value added. Moreover, the share on private R&D expenditures referred to MNEs in 2012 was equal to 24%, for a total amount of € 2.6 billion. The majority of data was aligned with 2011 data.

The average size of MNEs is bigger than Italian companies' one (about 89 *versus* 3.5 employees). Moreover, foreign multinational companies have investments *per capita* more than double than domestic-owned companies (about € 10,200 *versus* 5,100). A number of factors contributes to best operating performances for foreign-owned companies, in terms of productivity and profitability (see Fig. 2).

In the period 2005/12, despite a decline in the number of MNEs equal to 684 units, due both to the sectors of industry (–9.2%) and the sectors of services (–3.1%), the number of employees has increased (+1.3%), with significant shifts between industry and services. In fact, the negative balance of more than 50,000 units in workers employed in the industrial activities has been more than offset by the change in the number of employees in services (+65,000 units). This has increased not only the average size of MNEs (84 to 89 employees), but also their economic performance and the value added created.

Fig. 2 – Domestically-owned firms and foreign multinationals firms: a comparison in performance data (amounts in € thousands and %, 2012) – Source: Own elaboration on ISTAT data



In terms of profitability, defined by the ratio EBITDA/value added, the spread in favor of foreign-controlled enterprises remains very high (more than 20 percentage points, 40.1% versus 18.3%). Moreover, also the gap in terms of cost competitiveness, measured by the ratio between value added per employee and labor costs per employee, remains significant (167% versus 122%).

The analysis of economic sectors highlights that MNEs operate in industrial activities, e.g., manufacturing of pharmaceutical products (54.2% of all sectors' employees), in manufacturing of coke and other products from oil refining (35.7%), and in the manufacturing of chemical products (31.2%). Conversely, with regards to services, the weight of foreign-controlled enterprises is higher in information and communication (14.7% of employees), rent, travel agents and business services (12.3%), and financial and insurance activities (11.4%).

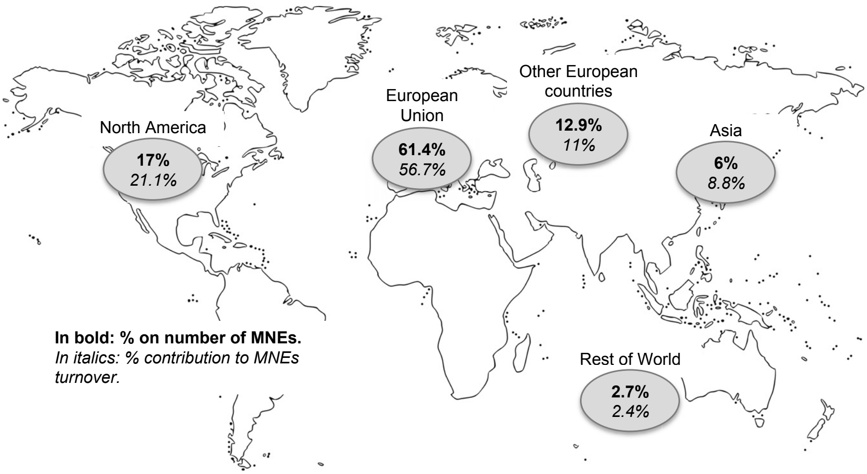
In 2012 goods exported by foreign affiliates were 25.9% of national export, while goods weighted for about 45.1% of national import.

The foreign multinationals operating in Italy are mainly resident in the European Union, from which comes 61% of companies. They generate about 57% of the turnover and 58% of value added referred to foreign-controlled enterprises (Fig. 3). The share of other economic areas is stable compared to 2011: North-America 17%, other European countries 13%. The Asian multinationals, although they are present in a very small number (6% of foreign multinationals), contribute to 8.8% of the turnover and hold a more significant share in imports (12.2%).

The United States confirm their leadership in the ranking by countries of last parent company's origin (Tab. 2). The number of MNEs with last parent company coming from USA is equal to 2,214, or the 16.6% of the total. Moreover, USA hold a share equal to 22.1% in terms of employees. Compared to 2011 data, this share decreased of 0.3% (–5,000 employees).

The "top ten" ranking by the number of foreign multinationals operating in Italy shows a significant presence of European countries (8 out of 10 countries). The weight is equal to 60.7% of the total number of MNEs operating in Italy at the end of 2012; they concentrate a percentage of employees equal to 58.4%, the 53.3% of turnover and the 55.7% of value added referred to foreign-controlled enterprises. If we exclude Switzerland (ranked 5th), the remaining European countries included in the "top ten" ranking by number of MNEs, are member countries of European Union (EU). They hold a share equal to 51.7% of the number of MNEs, 50.3% of employees and about 45% of turnover and value added.

Fig. 3 – Geographical origin of foreign-controlled enterprises (year 2012) – Source: Own elaboration on ISTAT data



Tab. 2 – Main countries of origin of foreign-controlled enterprises (values in units and in %, end-2012 data) – Source: own elaboration on ISTAT data

Country of origin (top 10 countries for number of MNEs)	Number of MNEs	%	Number of employees	%	Share of the total foreign-controlled enterprises, %	
					Turnover	Value added
United States	2,214	16.6	263,118	22.1	20.8	23.0
France	1,908	14.3	248,379	20.9	18.6	17.4
Germany	1,861	14.0	163,959	13.8	13.1	12.6
United Kingdom	1,329	10.0	92,562	7.8	7.3	7.3
Switzerland	1,197	9.0	96,146	8.1	8.1	12.1
Netherlands	589	4.4	23,019	1.9	1.5	1.6
Japan	530	4.0	52,837	4.4	6.4	4.5
Spain	520	3.9	20,881	1.8	1.2	1.2
Luxembourg	382	2.9	33,078	2.8	2.7	2.6
Austria	304	2.3	17,278	1.5	1.0	1.1
Total top ten	**10,834**	**81.3**	**1,011,257**	**84.9**	**80.6**	**83.3**
Total MNEs	**13,328**		**1,190,459**			

CHAPTER 2. ITALIAN PUBLIC DEBT AND SOVEREIGN RISK

2.1 Public debt stock and the consequences of sovereign risk

As reported in the 2014 Annual Report released by Bank of Italy at the end of May 2015, the conditions on the Italian financial markets have been improving since mid-2012, following the most acute phase of the sovereign debt crisis.

A number of factors favored these new relaxed conditions, for example the renewed confidence in the Monetary Union, the expansionary ECB's monetary policy, and the Quantitative Easing program in order to simulate the economy. The start of the Eurosystem's expanded asset purchase programme improved investor perception of banks' and firms' creditworthiness. At the same time, it confirmed the cohesion of the Monetary Union, and increased the risk propensity. However, some financial and market risks continue to be perceived as quite important. Within European boundaries, for example, the crisis between Russia and Ukraine and the Greek Government debt crisis are still causing some important fluctuations in financial asset prices. The conflicts in the Middle East and geopolitical tensions in some part of Africa may lead in the next future further instability conditions.

Referring to Italy, foreign investors showed renewed interest in Italian Government bonds. The risk premiums on bonds issued by Italian companies and banks fell markedly.

In 2014, net issuance of Italian government bonds decreased from the previous year (from 81 to 67 billion), the stock outstanding reaching the 111.1% of GDP. Foreign investors were attracted by relatively high yields, accompanied to a reduction of the perceived risks, related to the disappearance of fears about monetary union and to the determination of the Italian Government in implementing structural reforms. The share of Italian Government securities held by non-residents increased from 27% (end-2013 data) to 29% (end-2014 data)[1], while net purchases from Italian banks were almost zero.

[1] This percentage is referred to Italian Government bonds underwritten by foreign investors, net of securities held by the Eurosystem (excluding Bank of Italy) under the "Securities Markets Programme" and those included in the portfolios of institutional investors based abroad but referred to Italian investors.

During 2014 the interest rates on Italian government bonds fell on all maturities. In particular, 10-year bond's rate reduced from 4.1% to 1.9%. Moreover, the interest rate differential with German Government bonds reduced as well from 222 basis point (mean based on daily sample data referred to December 2013) to 134 basis points (end-December 2014).

More recent data, in the first quarter of 2015, confirm a descending trend in the 10y-BTP/*bund* spread, also reflecting positive expectations before and after the start the purchases of Government bonds by the Eurosystem. At the end of March 2015 the spread was about 107 basis point. Nevertheless, the fall of the Greek crisis contributed to a quite important increase of the spread over the last weeks, until to about 130 basis points at the end of May 2015.

On the secondary market for Italian Government bonds, negotiations were favored by liquidity conditions, improved over the previous year. On the MTS Cash (wholesale secondary market for Government bonds) the average daily trading of securities was higher than 2013. Moreover, the bid/ask spread between prices on BTP contracts was maintained around 10 basis points, favoring to keep liquidity risk premia on Italian Government bonds quite low.

With reference to Italy's financial account within the balance of payments, in 2014 the flow of financial transactions have returned to the pre-sovereign debt crisis' levels. Non-residents investors made net purchases of Italian securities for nearly € 100 billion, mainly Government bonds (about € 59 billion, in large part with maturities beyond one year, more than 3 times than in 2013) and other debt instruments, including those issued by Italian banks. Equity investments focused mainly on the banking sector.

As mentioned in the chapter 1, at the end of 2014, the international investment position (IIP) of Italy was negative and equal to € –447.9 billion (from € –492.7 billion at the end of 2013), or 27.7% of GDP, with an increase of about 3 percentage points compared to end 2013. The gross amount of liabilities, equal to € 2,647.7 billion, was mainly referred to domestic non-banking players (66%). The remaining refers to domestic banks (€ 692 billion, 26%) and to Bank of Italy (8%).

Moreover, within liabilities, portfolio investments – excluding those in Italian banks securities – had a value of € 1,093.4 billion: 71% of this amount refers to investments in securities issued by Public Administration entities (3 percentage points more than end-2013). Compared to end-2013, the absolute value of these investments grew up by € 117.8 billion, of which € 58.8 billion new flows and € 59 billion explained by valuation adjustments.

Considering the IIP as a whole, the valuation adjustments had a negative impact on the net IIP and equal to € –5.4 billion: the increase in the value of liabilities has more than offset the positive change in assets valuation. The revaluation of the first has been determined for more than half of the growth of the market value of Italian Government securities held by non-residents investors, following the fall in interest rates.

However, the ratio between the net IIP and the GDP remains below the threshold alert (35%), the level at which the European Commission had set in place the "Macroeconomic Imbalances Procedure" (MIP).

According to the "Guidelines for public debt management" released by the Department of the Treasury – Ministry of Economy and Finance (MEF), the year 2014 was extremely positive for the Italian public debt market, both for the issuer, who obtained highly satisfactory results with reference to the cost of debt issuances and their composition, and for the investors. The normalization process of the markets continued and consolidated further, after the intense turbulence of years 2011 and 2012. Moreover, the increase in liquidity on the secondary market for Government bonds can also be explained, at least in part, with a more systematic participation of foreign investors. Yields declined continuously during the entire year, as a consequence of macroeconomic conditions in Europe, the slump in inflation expectations, the liquidity injections by the ECB, and the improvement of Italy's credit risk.

The current year's objectives will be minimizing issuance costs and containing the exposure of debt to the main market risks, as well as a lengthening of the average life of debt.

A further increased role of foreign investors could be pursued only thanks to the maintenance of efficiency conditions in primary and secondary markets, as well as to a balanced and attractive risk-return ratio in the incoming debt issuances.

The most recent issuances, for example, have been characterized for a slight increase in bonds' yields, quite unexpected after the release of QE program. Nevertheless, this increase should also be explained with the slight rise in expected inflation rate in Europe.

The Ministry of Economy and Finance released details on demand composition during last issuances. The most recent data refer to 15y-BTP issued on March 2015 and to the 8^{th} "BTP Italia", issued on April 2015, with 8 year maturity.

About 270 investors participated to the 15y-BTP's auction, for a total demand higher than 16 billion of euro, almost the double of the face value issued (8 billion of euro). About 34% of the issue was placed to long-term investors (17.8% to central banks and government institutions, 16.2% in pension funds and insurance companies). The banks received approximately 29.4% of the total, while 21.7% of the issue has been underwritten by asset managers and investment funds.

The geographical distribution of investors was quite diversified. Domestic investors received about 43.8% of the issue, while the remaining has been allocated abroad, in particular to investors resident in the United Kingdom and Ireland (20.2%) and continental Europe (25.8%), especially Scandinavia (8.4%), Germany and Austria (6.5%), France (4.3 %) and Spain (3.1%). Non-European investors were, for the majority, North American (USA and Canada, 7.1%); investors from Middle East and Asia weighted for about 2.6% of the total amount issued.

The 8th issuance of "BTP Italia", the Government bond indexed to Italian inflation, was dedicated to retail investors (First Phase) and to institutional investors (Second Phase). The latter saw a total amount requested close to € 5.4 billion, while the whole issuance registered a "bid-to-cover ratio" equal to 2.69[2].

During the Second Phase, the placement of the bond saw a dominant presence of Italian investors, who were assigned about 88% of the amount issued. However, respect previous placements, the participation of European and international investors was wider and more diversified. In particular, the most relevant investors from abroad were from United Kingdom, Switzerland, France and some Asian countries.

These data confirm the growing interest from foreign investors into Italian Government securities.

The diversification in sources of funding and the participation of a broad base of domestic and foreign investors at auctions of Government securities is very important for a high-debt country like Italy. It is very important to assure financial markets that debt sustainability is under monitoring.

---

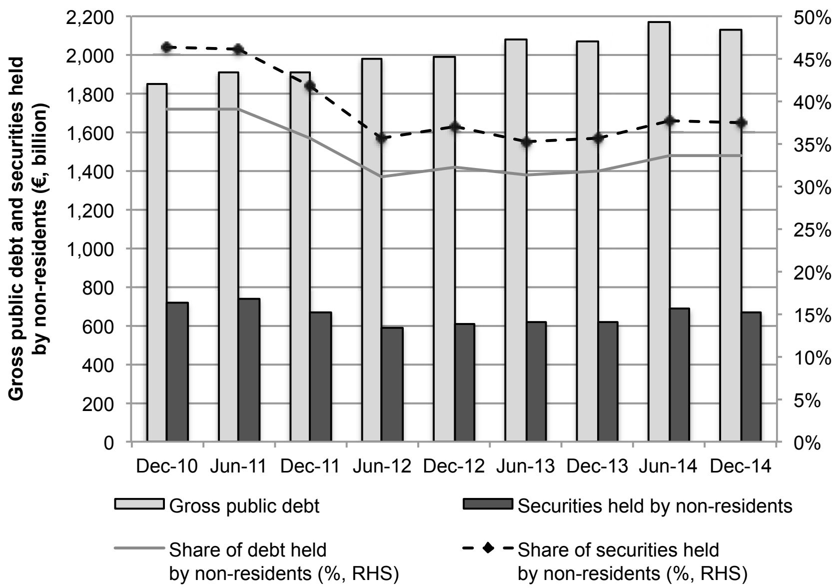
[2] The "bid-to-cover ratio" represents the ratio between the amount of supply and demand at the moment of Government securities' auctions. It is an important indicator for assessing the outcome of an auction of Government bonds. The higher (and bigger than 1) is the bid-to-cover ratio, the higher is the success of the placement among investors.

Before the outbreak of the financial crisis started in 2007 with US subprime mortgages, the share of Italian Government bonds held by non-residents was about 50% of the outstanding debt, or about € 700-800 billion. The financial crisis and, even more, the sovereign debt crisis caused a prompt reaction of foreign subscribers, which sold relevant share of Italian securities, as a consequence of negative valuations about Italian creditworthiness and its ability to repay debt.

At present, country risk is almost disappeared, the rating agencies' valuations improved and foreign investors returned to buy Italian Government bonds. The process is still in place and its success will rely on the improvement in public finances, as well in the maintaining of political and economic stability and in the success of structural reforms.

Fig. 1 shows recent trends of Italian public debt and Government securities, as well shares held by non-residents (percentages are on the right-hand scale, RHS). As shown in Fig. 1, the negative gap compared to pre-sovereign risk crisis' period is smaller than end-2013 data.

Fig. 1 – Recent trend of Italian public debt and shares held by non-residents (amounts in € billion, % on the right-hand scale) – Source: Own elaboration on Bank of Italy, Statistical Database (BDS)



According to the most recent data available in the "Statistical Database (BDS)" released by Bank of Italy, this reversal in the foreign investors' preferences, started in 2013, has also continued in 2014. At the end of December 2014, the gross public debt amounted to € 2,135 billion. The securities held by non-residents amount to about € 673 billion (+ € 54 billion, +8.7% YoY), over a total value of debt represented by securities amounting to € 1,791 billion. In other words, the share of public debt (securities and other payables to foreign entities) owned by non-residents was 33.6%. This percentage rises to about 38% if we take into account only Government securities held by foreign investors. Both of shares are about 2 percentage points higher than end-2013 data.

2.2 Foreign exposure towards Italy

Since 2007 Bank of Italy releases end-of-quarter statistics on Italian external debt. Until February 2015, data were consistent with the SDDS (Special Data Dissemination Standard) requirements and the methodology set out by International Monetary Fund.

Since February 2015, following Italy's adoption of the new SDDS+, the data are available in the Bank of Italy's Statistical Database (BDS).

Statistics are consistent over time. As explained in Bank of Italy's statistics, "gross external debt liabilities are broken down by: resident sector (general Government, monetary Authorities, other monetary financial institutions, other sectors), original maturity (short-term or long-term), investment type (money market instruments, bonds and notes, loans, currency and deposits, trade credits and other liabilities). […] The data are consistent with international investment position statistics, which are disseminated on a quarterly basis. The external debt data are a subset of international investment position statistics"[3].

According to these data, at the end of 2014, the external debt of Italy was equal to € 2,025.6 billion (+155 billion, +6% YoY). The breakdown by sectors shows that the majority of external debt is referred to general Government (€ 812.4 billion, 40% of the total). The annual increase amounts to € 119.6 billion (+17%), while the share over the total amount increased of about 3.8 percentage points. Deposit-taking corporations (domestic banks, except Central Bank) have external debt position

[3] See Bank of Italy, "*Italy – External debt*", www.bancaditalia.it.

valued € 483 billion (24% of the total), with an annual increase of about € 7 billion (+1.5%).

Other statistics about external debt are released by the Bank for International Settlements (BIS). In this case, however, they are sample data, based on a sample of international reporting banks coming from 25 countries (24 until end-December 2013).

According to these data, at end of 2014, the exposure of foreign reporting banks towards Italy was about $ 692 billion, with an annual decrease of $ 56 billion (Tab. 1). The effect was mainly explained by the decrease of the debt due by national banks (–6.4 billion) and by non-bank private sector (–66.3 billion), while the public sector increased the stock of outstanding debt, even if only by $ 4.2 billion. Focusing on the geographical breakdown, the majority of debt is due towards European banks ($ 600 billion, with an annual decrease of about $ 66 billion), especially French (45%) and German (17%) banks.

Tab. 1 – Public and private debt towards foreign countries ($ million, end-year data) – Source: Own elaboration on BIS, Statistical Annex, Consolidated Banking Statistics

External debt	Dec-11	Dec-12	Dec-13	Jun-14	Dec-14	Δ% 2014, YoY
Total	**715,420**	**717,804**	**748,307**	**806,794**	**692,386**	**-7.5**
of which: Public sector	*174,358*	*198,060*	*225,570*	*261,877*	*229,749*	*1.9*
of which: Banks	*109,031*	*94,048*	*102,766*	*118,318*	*96,387*	*-6.2*
of which: Non-bank private sector	*431,234*	*424,937*	*419,385*	*426,160*	*353,069*	*-15.8*
of which: European banks	645,133	632,526	666,444	703,721	600,083	-10.0
of which: non European banks	70,287	85,278	81,863	103,073	92,303	12.8

Regards to public debt only (Tab. 2), in the ranking of leading countries of reporting banks, the top 3 countries, namely France, Germany, and Spain, held about two-thirds (64%) of Italian public external debt. It is worthy to observe that, while French banks reduced their exposure of more than $ 18 billion, Spanish banks more than doubled their one, increased from $ 11.6 to $ 30 billion. Other positions, on average, are quite stable. If we analyze last 3y-period we observe a decrease in the share of external public debt held by two main creditors, namely France and Germany, from 62% to 51%. Nevertheless, the absolute amount of outstanding debt claimed by French and German banks increased from $ 108 to $ 117 billion. Spanish and US banks have increased significantly the amount held of Italian public debt.

Tab. 2 – Total amount of external public debt by holder ($ million, outstanding debt at end of period) – Source: Own elaboration on BIS, Statistical Annex, Consolidated Banking Statistics

Countries (a)	Dec-11		Dec-12		Dec-13		Dec-14	
	Value	%	Value	%	Value	%	Value	%
France	66,167	37.9	73,646	37.2	88,389	39.2	70,138	30.5
Germany	41,861	24.0	41,108	20.8	49,801	22.1	47,321	20.6
Spain	8,536	4.9	8,422	4.3	11,644	5.2	30,056	13.1
Japan	19,504	11.2	25,495	12.9	23,709	10.5	22,997	10.0
United States	8,524	4.9	17,128	8.6	15,601	6.9	19,243	8.4
Switzerland	3,097	1.8	4,227	2.1	10,315	4.6	10,737	4.7
Belgium	7,136	4.1	6,517	3.3	6,693	3.0	8,185	3.6
United Kingdom	8,445	4.8	6,797	3.4	4,053	1.8	2,674	1.2
Other countries	11,088	6.4	14,720	7.4	15,365	6.8	18,398	8.0
Total	**174,358**	**100**	**198,060**	**100**	**225,570**	**100**	**229,749**	**100**
% over total (b)		**24.4**		**27.6**		**30.1**		**33.2**

Note: (a) top 8 countries for debt held, sorted according to the stock of outstanding debt at the end of 2014; (b) The percentage is calculated by dividing the stock of external public debt over total external debt.

The composition of external private debt remained quite stable in the last three years. Banking sector's share is about 21% of the total; the high majority are debts due towards European banks (83%). The share of external debt referred to non-bank private sector held by European banks is about 91%, with a slight decrease compared previous years. It is worthy to observe that the total amount of external private debt is decreased in 2014 (–72.7 billion of dollars), confirming a 3y-trend.

Tab. 3 – Composition of external private debt (banking sector and non-bank private sector debt, $ million, end-year data) – Source: Own elaboration from BIS, Statistical Annex, Consolidated Banking Statistics

External private debt	Dec-11	Dec-12	Dec-13	Dec-14	Δ% 2014, YoY
Banking sector	**109,031**	**94,048**	**102,766**	**96,387**	**-6.2**
of which: European banks	90,942	83,321	90,343	79,872	-11.6
of which: non-European banks	18,089	10,727	12,423	16,515	32.9
Non-bank private sector	**431,234**	**424,937**	**419,385**	**353,069**	**-15.8**
of which: European banks	408,088	396,997	390,835	320,145	-18.1
of which: non-European banks	23,146	27,940	28,550	32,924	15.3

CHAPTER 3. THE PRESENCE MODE OF FOREIGN BANKS IN ITALY

In accordance with the data published by the Bank of Italy in the last Annual Report, at the end of 2014, there were 79 the branches of foreign banks operating in Italy, one of them included in national groups, and one less compared one year before. At the end of 2013, last update available, the subsidiaries of foreign companies operating in Italy were 23. The market share of foreign branches and subsidiaries in loans remained quite stable to 2013-data and approximately equal to 14%.

3.1 The Representative Offices

According to the figures in the ABI Yearbook, and in addition with AIBE information and data, at the end of May 2015 there were in Italy 6 Representative Offices of European Union (EU) banks and 5 of non-EU banks, for a total number of 11 (Tab. 1).

Tab. 1 – Representative Offices of foreign banks in Italy – Source: Own elaboration on AIBE data and ABI Yearbook, various years

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU Countries										
Austria										
Oesterreichische Volksbanken	x									
Raiffeisen Bank International AG						x				
Raiffeisen Zentralbank Oesterreich	x	x	x	x	x					
Raiffeisenlandesbank Kärnten	x	x	x	x	x	x				
Raiffeisenverband Salzburg Gmbh – Bank	x	x	x	x	x	x				
Belgium										
KBC Bank	x	x								
France										
Crédit Industriel et Commercial	x	x	x	x	x	x	x	x	x	x
Société Générale S.A.						x	x	x	x	x
Germany										
Landesbank Baden Wuerttenberg	x	x	x	x						
Salzburg Muenchen Bank AG	x	x	x	x	x	x				
Luxembourg										
European Investment Bank		x	x	x	x	x	x	x	x	x
Malta										
Bank of Valletta	x	x	x	x	x	x	x	x	x	x
Portugal										
Banco Espirito Santo		x	x	x	x	x				
United Kingdom										
Standard Bank Plc	x		x							
The Royal Bank of Scotalnd Plc							x	x	x	x
Spain										
Banco Sabadell	x	x	x							
Banco Santander	x	x	x							
La Caixa	x	x	x	x	x		x	x	x	x
Caja de ahorros y pensiones de Barcelona						x	x			
Non-EU Countries										
India										
State Bank of India	x	x	x	x	x	x	x	x	x	x
Principality of Monaco										
Compagnie Monégasque de Banque	x	x	x	x						
Russia										
Bank for foreign Trade	x	x								
The Bank for development and Foreign Economic Affairs (Vnesheconombank)				x	x	x	x	x	x	x
The Bank for Foreign Affairs of the USSR	x	x	x							
VTB Bank (open joint-stock company)			x	x	x	x	x	x	x	x
Ellips Bank						x	x	x		
United States										
American Express Bank Ltd	x									
Bank of New York	x									
Wachovia Bank NA	x	x	x	x						
JPMorgan Chase Bank, National Association					x	x	x	x	x	x
Wells Fargo Bank NA					x	x	x	x	x	x
EU total	**13**	**13**	**13**	**10**	**9**	**10**	**7**	**6**	**6**	**6**
% on EU total	*65.0*	*72.2*	*72.2*	*66.7*	*64.3*	*62.5*	*53.8*	*50.0*	*54.5*	*54.5*
Non-EU total	**7**	**5**	**5**	**5**	**5**	**6**	**6**	**6**	**5**	**5**
% on non-EU total	*35.0*	*27.8*	*27.8*	*33.3*	*35.7*	*37.5*	*46.2*	*50.0*	*45.5*	*45.5*
Total	**20**	**18**	**18**	**15**	**14**	**16**	**13**	**12**	**11**	**11**

3.2 The branches of foreign banks

Table 2 summarizes the number of branches of foreign banks, by country origin, that were present in Italy with one or more secondary branches from 2004 to May 2015. At this date there were 82 branches of foreign banks in Italy, 73 of which coming from EU countries (11 countries). The remaining come from non-EU countries (5 countries, of which 4 are non-European nations). Compared to 2013, the balance is equal to –2, with one net outflow both from EU banks and one from non-EU banks. Last years' trend highlights very few changes over time.

Annual inflows/outflows of branches of foreign banks are reported in Tab. 3.

Tab. 2 – Geographical origin and number of branches of foreign banks in Italy (data updated at end-May of each year) – Source: Own elaboration from Borroni (2006) and ABI Yearbook, various years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU Countries												
Austria	3	2	2	2	2	2	2	2	1	2	2	3
Belgium	1	1	1	1	1	2	2	1				
Denmark							1	1	1	1	1	1
France	14	14	14	13	17	17	18	17	19	18	18	18
Germany	11	12	11	17	19	18	18	16	13	14	14	14
Ireland	2	2	2	2	3	2	2	2	2	2	2	1
Latvia	(*)					1	1	1	1	1	1	1
Luxembourg				4	4	4	4	5	6	8	9	9
Netherlands	6	6	6	6	7	7	6	6	5	5	4	4
United Kingdom	6	6	8	11	10	12	12	13	14	15	15	15
Slovenia	1 (*)	1	1	1	1	1	1	1	1	1	1	1
Spain	3	3	3	5	5	6	5	5	6	7	6	6
Non-EU Countries												
Australia			1	1	1	1						
Bahrain												
Brazil	1	1	1	1	1	1	1	1	1	1	1	
China	1	1	1	1	1	1	1	1	1	1	1	1
Japan	1	1	1	1	1	1	2	2	1	2	2	2
Jordan	1	1	1									
Iran	1	1	1	1	1	1	1	1	1	1	1	1
Switzerland	1	1	1	1	1	1	1	1	1	1	1	1
United States	6	5	4	4	4	3	3	3	4	4	4	4
EU total	**47**	**47**	**48**	**62**	**69**	**72**	**72**	**70**	**69**	**74**	**73**	**73**
% on EU total	*79.7*	*81.0*	*81.4*	*86.1*	*87.3*	*88.9*	*88.9*	*88.6*	*88.5*	*88.1*	*88.0*	*89.0*
Non-EU total (**)	**12**	**11**	**11**	**10**	**10**	**9**	**9**	**9**	**9**	**10**	**10**	**9**
% on Non-EU total	*20.3*	*19.0*	*18.6*	*13.9*	*12.7*	*11.1*	*11.1*	*11.4*	*11.5*	*11.9*	*12.0*	*11.0*
Total	**59**	**58**	**59**	**72**	**79**	**81**	**81**	**79**	**78**	**84**	**83**	**82**

Note: (*) Year of entry in European Union (**) Latvia and Slovenia are included in the non-EU total until 2003.

Tab. 3 – Inflows/outflows in the number of branches of foreign banks in Italy (data updated at end-May of each year) – Source: Own elaboration from Borroni (2006) and ABI Yearbook, various years

	N° of branches (2004)	Annual inflows/outflows											N° of branches (May 2015)
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
EU Countries													
Austria	3	-1	0	0	0	0	0	0	-1	1	0	1	3
Belgium	1	0	0	0	0	1	0	-1	-1				
Denmark							1	0	0	0	0	0	1
France	14	0	0	-1	4	0	1	-1	1	0	0	0	18
Germany	11	1	-1	6	2	-1	0	-2	-3	1	0	0	14
Ireland	2	0	0	0	1	-1	0	0	0	0	0	-1	1
Latvia	(*)					1	0	0	0	0	0	0	1
Luxembourg		0	0	4	0	0	0	1	1	2	1	0	9
Netherlands	6	0	0	0	1	0	-1	0	-1	0	-1	0	4
United Kingdom	6	0	2	3	-1	2	0	1	1	1	0	0	15
Slovenia	1	0	0	0	0	0	0	0	0	0	0	0	1
Spain	3	0	0	2	0	1	-1	0	1	1	-1	0	6
Extra EU Countries													
Australia			1	0	0	0	-1						
Brazil	1	0	0	0	0	0	0	0	0	0	0	-1	0
China	1	0	0	0	0	0	0	0	0	0	0	0	1
Japan	1	0	0	0	0	0	1	0	-1	1	0	0	2
Jordan	1	0	0	-1									
Iran	1	0	0	0	0	0	0	0	0	0	0	0	1
Switzerland	1	0	0	0	0	0	0	0	0	0	0	0	1
United States	6	-1	-1	0	0	-1	0	0	1	0	0	0	4
EU total	**46**	**0**	**1**	**14**	**7**	**3**	**0**	**-2**	**-2**	**6**	**-1**	**0**	**73**
Non-EU total (**)	**13**	**-1**	**0**	**-1**	**0**	**-1**	**0**	**0**	**0**	**1**	**0**	**-1**	**9**
Total	**59**	**-1**	**1**	**13**	**7**	**2**	**0**	**-2**	**-2**	**7**	**-1**	**-1**	**82**

Note: (*) Year of entry in European Union (**) Latvia and Slovenia are included in the non-EU total until 2003.

3.3 The branch networks of foreign banks in Italy

As reported by the Bank of Italy, at the end of December 2014, 663 banks were present in Italy, of which 79 were foreign banks (almost 12% of the total), with 251 branches, with a decrease of 8 compared to end-2013 data.

The share of branch networks is below the 1% of the total branches. The annual decrease in branch networks is comparable to that observed on total number of banks (–3%). On a 5y-trend (2009/14), the percentage change in branch networks is more severe for foreign banks (–17%) than Italian ones (–10%). However, due to the fact that the number of foreign banks is almost stable (–3 units), it probably means that the branch networks' reduction can be referred to strategic changes by a few number of foreign intermediaries and also that foreign banks are choosing – for the majority – to operate with a limited number of branch networks, or with online channels, or opening specialized "financial shops" that are not included in Bank of Italy's BDS.

In Lombardy 63 foreign banks out of 79 (80% of the total) have their administrative offices. These banks count for 130 branches (–4 compared to end-2013 data), equal to 52% of the total branch networks of foreign banks and around 2% of the total number of bank branches operating in the region. Milan and its province continue to be the most attractive location for foreign intermediaries: all foreign banks have their administrative offices in Milan or in its province, where are also located 101 out of 130 branches referred to foreign banks. These data are quite stable compared to previous year.

Tab. 4 – The branch networks of domestic and foreign banks in Italy – Source: Own elaboration on Bank of Italy, Statistical Database (BDS)

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
2005	784	31,501	66	108	8.4	0.3
2006	793	32,338	74	128	9.3	0.4
2007	806	33,229	79	155	9.8	0.5
2008	799	34,146	82	224	10.3	0.7
2009	788	34,036	82	303	10.4	0.9
2010	760	33,640	75	297	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	663	30,723	79	251	11.9	0.8

According to ABI Yearbook[1], we analyzed the branch networks of foreign banks operating in Italy by home country. As shown in Tab. 5, the high majority is referred to banks located in EU countries (95.6% of the total, end-May 2015 data). The value is consistent with previous years' results and in line with the last 5 years' average.

[1] The slight differences between Bank of Italy' and ABI's data are explained by the different updating date (end-December and end-May, respectively). Moreover, for the purposes of this analysis, foreign banks with no further data about the number of branches have been considered as single-branch banks.

Moreover, non-EU banks prefer a single-branch structure. After a sharp reduction in 2012 and 2013, in last year the number of branches remained quite stable.

Tab. 5 – Number of branches of foreign banks operating in Italy by home countries (data updated at end-May of each year) – Source: Own elaboration from Borroni (2006) and ABI Yearbook, various years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU Countries												
Austria	6	6	6	7	9	9	5	5	1	4	4	4
Belgium	5	9	4	6	6	7	2	1				
Denmark							1	1	1	1	1	1
France	15	15	15	14	17	17	18	18	46	46	48	48
Germany	14	15	13	19	21	20	16	16	13	14	15	15
Ireland	2	2	2	2	4	2	2	2	1	1	1	1
Latvia	(*)					1	1	1	1	1	1	1
Luxembourg				7	7	7	6	7	8	9	9	9
Netherlands	10	8	8	8	9	8	7	7	13	15	17	17
United Kingdom	20	20	22	44	70	142	219	222	200	128	114	114
Slovenia	2 (*)	2	2	1	1	2	2	1	1	1	1	1
Spain	3	3	3	5	5	6	4	4	4	4	4	4
Non-EU Countries												
Australia			1	2	2	1						
Bahrain												
Brazil	2	2	2	3	3	3	3	3	3	3	3	
China	1	1	1	1	1	1	2	2	2	2	3	3
Japan	1	1	1	1	1	1	2	2	1	2	2	2
Jordan	1	1	1									
Iran	1	1	1	1	1	1	1	1	1	1	1	1
Switzerland	1	1	1	1	1	1	1	1	1	1	1	1
United States	13	12	11	5	4	4	3	3	3	3	3	3
EU total	**77**	**80**	**75**	**113**	**149**	**221**	**283**	**285**	**289**	**224**	**215**	**215**
% on EU total	*79.4*	*80.8*	*79.8*	*89.0*	*92.0*	*94.8*	*95.9*	*96.0*	*96.3*	*94.9*	*94.3*	*95.6*
Non-EU total (**)	**20**	**19**	**19**	**14**	**13**	**12**	**12**	**12**	**11**	**12**	**13**	**10**
% on Non-EU total	*20.6*	*19.2*	*20.2*	*11.0*	*8.0*	*5.2*	*4.1*	*4.0*	*3.7*	*5.1*	*5.7*	*4.4*
Total	**97**	**99**	**94**	**127**	**162**	**233**	**295**	**297**	**300**	**236**	**228**	**225**

Note: (*) Year of entry in European Union (**) Latvia and Slovenia are included in the non-EU total until 2003.

3.4 The employees in foreign banks branches

At the end of 2014, the number of employees in foreign banks branches operating in Italy was equal to 34,745 (11.3% of the total), of which 28,810 hired by subsidiaries and 5,935 by branches. Compared to 2013, the decrease was about 7%, higher than the annual change in employees hired by Italian banks (–1.1%).

CHAPTER 4. CORPORATE AND INVESTMENT BANKING

The *Corporate & Investment Banking* sector (hereinafter CIB) refers to the offer of financial products and services covering different financing needs by corporates. As known, according to the "*follow your customer*" theory, this sector has represented one of the first business lines related to the expansion abroad of a financial intermediary.

The internationalization banking towards Italy followed, in a number of cases, this theory. In '70s and '80s of the last century several foreign banks – especially from USA, Japan and France – entered into Italian financial and banking market with the purpose to assist their domestic clients, multinational firms, which required a support of a "home country" bank.

According to AIBE Yearbook 2014/2015, updated in November 2014 and based on information collected by a significant sample of AIBE member banks (about 95% of the total number of AIBE member banks), 31 out of 35 foreign banks participating to the survey offer financial products/services included in CIB sector. Furthermore, 18 banks out of 31 state that CIB is the only macro-sector in which they operate in Italy. The remaining (13 banks) are pursuing a strategy of diversification, also operating in *Retail Banking* and *Asset Management*.

Regarding to the customer segmentation, 22 banks out of 31 offer products and services both to corporate and institutional clients. 8 foreign banks have as target clients corporates only, while just one AIBE member bank offers products/services to institutional customers only.

With reference to CIB activities, AIBE Yearbook 2014/2015 shows that the framework of the activities is quite complex and diversified. Foreign banks carry out lending activities, in different financing solutions (i.e., syndicated loans, letters of credit), Moreover, they operate in capital markets (*Equity*, *Debt* and *Financial Markets*), as well as in venture capital and project financing.

They also provide support to securities' issuances and trading on capital and derivatives markets. At the moment, services related to the support to corporate finance's decisions (Mergers & Acquisitions, LBO, debt restructuring, etc.) are less common, but growing in importance.

At the present, the Italian CIB is undersized compared to the pre-crisis size. However, there are a number of positive signals, as – for example – the recovery in M&A deals and the coming back of securitization deals.

Year 2015 will be, probably, a "year of transition", with a number of macroeconomic risks perceived as still important, and economic and financial margins expected quite stable. Expectations are stronger for 2016, for a complete takeoff of post-crisis world economy, and – as a consequence – of corporations' capital needs, that will stimulate CIB sector.

In this chapter, the main focus is upon the role of foreign banks in Italy within the CIB market, with reference to structured finance products (par. 4.1), private equity and venture capital (par. 4.2) and M&A deals (par. 4.3).

4.1 Structured Finance

4.1.1 Syndicated Loans

Syndicated loans are a very important financial solution to support the growth of a corporation. The large denomination of the loan, provided by a group of lenders, is suitable to finance long-term investments. The lenders share the credit risk and the exposure.

Financial intermediaries participate to a pool, with different duties (i.e., bookrunner, participant, mandated arranger and facility agent).

The current section summarizes data about recent issuances of syndicated loans by Italian companies from 2005 to 2014. The source of data is the database Dealogic. Each loan has been analyzed with reference to each single tranche (e.g., issuer, amount, maturity, credit quality, lenders, issuer's general industry) and also by bookrunners' home country[1].

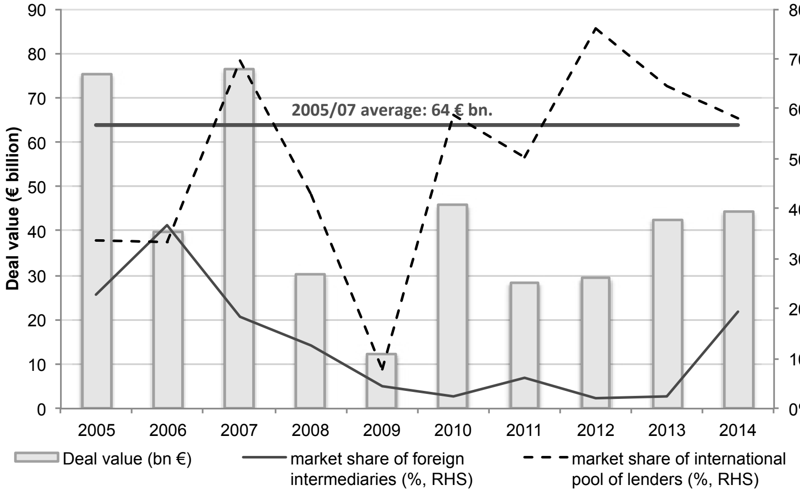
During 2014, € 44.3 billion of syndicated loans have been issued by Italian companies (+ € 1.7 billion YoY). The number of deals has increased from 98 to 117; these operations have been divided into 224 tranches (+32 compared to end-2013 data). On average, the single deal's average size is decreased from € 435 to € 379 million, as well as the average amount of single tranche, from € 222 to € 198 million.

[1] The bookrunner is the main underwriter or lead manager in the issuance of new equity, debt or securities instruments. In investment banking, the bookrunner is the underwriting firm that is in charge of the books. More than one bookrunner can manage a security issuance, in which case the involved parties are called "joint bookrunners".

So, the market size is slowly growing, but banks are willing to take risky positions only if properly “shared”.

As shown in Fig. 1, despite the increase in last 2 years, the Italian market of syndicated loans is far below the pre-crisis size. During the last 3 years, the mean annual value was about € 39 million, quite far from the annual mean in the period 2005/2007, which is commonly used as a “pre-crisis” reference.

Fig. 1 – Annual deal value of syndicated loans by bookrunner’s geographical origin and share of foreign intermediaries (2005/14) – Source: Own elaboration on Dealogic data



In last years the market share held by foreign banks is resulted quite volatile, also due to higher credit risk and lower market liquidity. During 2014, foreign banks participated (as solely bookrunners) in 19.5% of issuances, equal to around € 8.6 billion (12 tranches). On the contrary, they held a more significant market share – even if decreasing compared to 2012 and 2013 – within international syndicates, in which they participated together with one or more Italian banks. The market share of these pools is equal to 58% of the total (€ 25.7 billion, 67 tranches). It should be also noticed that arguably the market share held by foreign bookrunners is higher, because the information about bookrunnners’ name and geographical origin was not available for 77 tranches issued in 2013, equal to a value of around € 5.6 billion.

Over the period 2005/14, the average annual share of loans with the presence of at least a foreign bookrunner was equal to 62%. As shown in the previous Fig. 1, the annual market shares were quite volatile and a clear trend is quite hard to predict over the next future. Arguably, financial intermediaries are still implementing “risk sharing strategies”, to face the economic crisis and the deterioration in credit quality.

The Italian market of syndicated loans is quite concentrated, but less than 2013: the three most relevant deals issued in 2014 had a weight equal to 32% of the total (€ 14.2 billion), 8 percentage points less than the same concentration ratio referred to 2013 issuances. The market size referred to 10 biggest deals is about 42%, for a value issued of about € 26.5 billion.

It is interesting to observe that all of these issuances have seen the participation of at least one foreign intermediary. In fact, foreign banks took part as a solely bookrunner in one out of 3 most relevant deals and in one out of first 10. Moreover, they participated, within international pools of lenders, in 2 out of 3 most relevant deals and in 9 out of first 10.

Focusing on borrower’s business sectors, we may observe that in the “top ten” deals 6 sectors are represented. Leisure & Recreation sector received € 10 billion (2 deals), while Utility & Energy companies received € 5.8 billion (3 deals). Five remaining loans have been granted to TLC companies (€ 5.8 billion, 2 deals), Aerospace (€ 2.2 billion), Machinery (€ 1.75 billion) and Metal & Steel (€ 1 billion). The picture is more diversified than 2013, so explaining a wider and renewed interest by Italian companies in these loans, after several difficult years during financial crisis.

Tab. 1 summarizes tranches values on the basis of borrower’s business sector: Leisure & Recreation, Utility & Energy and TLC are the most represented ones. They collected about € 24.8 billion or 56% of the whole market. If we look to the activity of foreign banks as solely bookrunners, they have mainly granted loans to Leisure & Recreation, Real Estate/Property and Machinery companies. The diversification is quite limited, due to the fact that the single deal towards Leisure & Recreation sector weights for about 93% of the total. On the other hand, international syndicates granted the majority of their loans towards Utility & Energy, Aerospace, TLC, and Leisure & Recreation. These four main industrial sectors represent about 68% of international pools’ activity.

Tab. 1 – Syndicated loans: distribution of the deal value by bookrunner's geographical origin and borrower's industrial sector (issuances 2014, € million) – Source: Own elaboration on Dealogic data

Borrower's industrial sector	Bookrunner's geographical origin								Total	% on (a)	#
	Foreign intermediaries	% on (a)	#	Italian and foreign intermediaries	% on (a)	#	Italian intermediaries	N/A data			
Leisure & Recreation	8,005.09	92.6	*1*	2,050.77	8.0	*4*			10,055.86	22.7	*1*
Real Estate/Property	253.67	2.9	*2*	350.00	1.4	*13*	479.60	570.00	1,653.27	3.7	*9*
Machinery	140.36	1.6	*3*	1,750.00	6.8	*6*	235.00	307.50	2,432.86	5.5	*4*
Chemicals	130.00	1.5	*4*	120.00	0.5	*16*		13.98	263.98	0.6	*20*
Utility & Energy	89.62	1.0	*5*	7,125.00	27.7	*1*	400.00	797.37	8,411.99	19.0	*2*
Food & Beverage	25.00	0.3	*6*	700.00	2.7	*8*	92.68	85.00	902.68	2.0	*11*
Telecommunications				6,125.00	23.8	*2*	192.34		6,317.34	14.2	*3*
Aerospace				2,200.00	8.6	*3*			2,200.00	5.0	*5*
Metal & Steel				1,912.75	7.4	*5*		275.30	2,188.05	4.9	*6*
Other sectors				3,375.40	13.1		2,991.30	3,548.22	9,914.92	22.4	
Total (a)	**8,643.74**	**100**		**25,708.92**	**100**		**4,390.92**	**5,597.37**	**44,340.95**	**100**	
C5 ("top 5" sectors)	**8,618.74**	**99.7**		**19,413.52**	**75.5**		**2,777.20**		**29,418.05**	**66.3**	
C10 ("top 10" sectors)	**8,643.74**	**100**		**23,950.32**	**93.2**		**3,806.04**		**38,377.59**	**86.6**	

Note: The columns "#" shows the ordinal position of the borrower's industrial sector (in terms of deal value), for different pool of lenders and compared to the total market size.

2014 issuances have been focused on short/medium term maturity: 75% of loans issued in 2013 an loans issued in 2013 had initial maturity equal or less than 5 years; in 2014 this share grew up to 90% (Tab. 2). 15 tranches had a maturity over 10 years, but just one of them is higher than 20 years. These long-term loans have a total value of € 974 million, about 2% of the total deal value issued in 2014.

Foreign intermediaries – as solely bookrunners – are mainly focused on short/medium term loans; international pool of lenders focused on 3-5y-loans. No specialization comes from loss breakdown by maturity and by bookrunners' origin.

The loans' average maturity is equal to 5.6 years, with a light decrease compared to 2013-data (5.8 years). The lengthening of maturities (it was about 4 years in 2012) could be a positive factor in order to boost the recovery of the market, as a consequence of a reprise of companies' long-term investments and a renewed demand for long-term loans.

Tab. 2 – Distribution of the deal value by bookrunner's geographical origin (issuances 2014, % over the total deal value issued in 2014) – Source: Own elaboration on Dealogic data

Initial loan maturity	Bookrunner's geographical origin				Total
	Foreign interm.	Italian and foreign interm.	Italian interm.	N/A data	
Less than 1 year		0.3	0.3	0.5	**1.1**
From 1 to 3 years	18.1	10.9	1.7	3.1	**33.8**
From 3 to 5 years	0.9	44.5	5.5	4.3	**55.1**
From 5 to 10 years	0.1	1.4	2.4	2.4	**6.3**
From 10 to 20 years	0.1			1.7	**1.9**
More than 20 years				0.3	**0.3**
N/A data	0.3	0.8		0.3	**1.4**
Total	**19.5**	**58.0**	**9.9**	**12.6**	**100**

4.1.2 Securitization

This section deals with Italian securitization market. Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) are analyzed[2].

According to Dealogic data on Debt Capital Markets (DCM), we pointed out the role of foreign intermediaries in arranging assets and loans securitization with Italian issuers.

According to last Consob Annual Report, during 2014, the primary market for securitized assets has continued to suffer a substantial stagnation in both the US and Europe. In the US markets, the total volume of securitizations was about € 650 billion, down from € 800 billion in 2013. In European markets, gross issuances reached a total of about € 70 billion, 10 less than the previous year. Net issuances were close to zero, both for ABS and MBS[3].

The Italian market is much smaller: gross issuances were about € 7.3 billion, up from € 3.8 billion registered in 2013, primarily due to the increase in MBS.

For the purpose of this report, according to Dealogic data, an amount of € 7.3 billion of securitization transactions with domestic issuers has been analyzed, of which about € 5.2 billion as deals on ABS and about € 2.1 billion as deals on MBS. As shown in Fig. 2, the positioning of foreign bookrunners has been very important (but also extremely volatile) over the period 2005/14. At the same, over that period, the size of the Italian market was highly floating.

Over the period 2005/14, the average market share held by foreign bookrunners has been equal to 53% (solely bookrunners). The share raises to 92% including also the transactions arranged with Italian financial intermediaries. Fig. 2 also shows that the current market size is far below the average of pre-crisis years, even if last 3y-trend is growing.

In 2014, database Dealogic recorded 17 tranches of ABS (+3 YoY), referred to 5 deals; regards to MBS, Dealogic recorded 11 tranches referred to 3 deals, issued by Italian banks. In 203 no MBS operation was recorded in the database.

It is worthy to observe that the Italian market of ABS and MBS is quite concentrated, with a few number of deals. "Top 5" tranches issued in 2014 amounted to € 3.2 billion, or the 44% of the whole market.

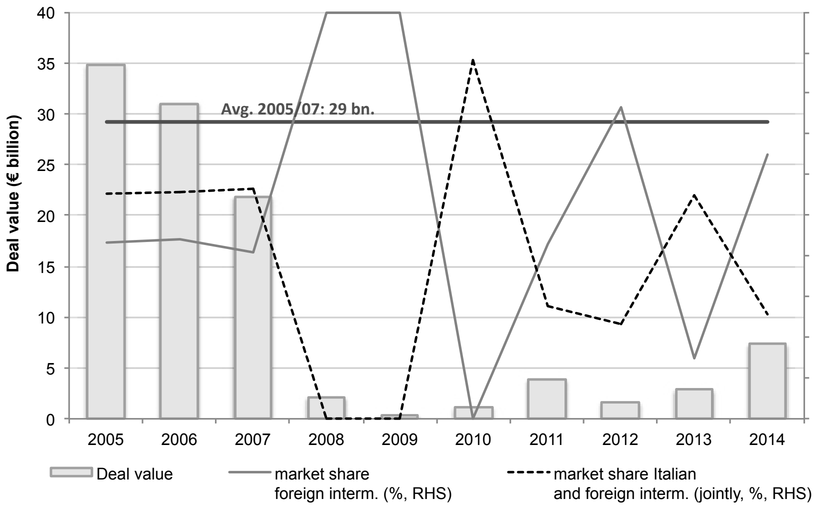
---

[2] As well-known, securitization is a structured finance's operation, which consists in the sale of receivables or other financial assets by an entity called originator to a qualifying company (special purpose vehicle, SPV) that issues a debt security.

[3] Consob, *Relazione per l'anno 2014* [it], March, 31st, 2015, p. 80.

Foreign intermediaries participated as bookrunners in the issuance of 4 out of these 5. The first 50% of tranches by amount has a weight of 84% of the whole market and foreign bookrunners participated to 13 out of these 14 issuances.

Fig. 2 – Distribution of the annual amount of ABS and MBS transactions by bookrunner's geographical origin and market share held by foreign intermediaries (2005/14) – Source: Own elaboration on Dealogic data



In February 2015, the European Commission presented, as part of the "Capital Markets Union" project, several proposals aiming to expand access to finance by European corporations. The Commission's initiatives will support the assets' diversification process of institutional investors, as well as the development of financial markets and instruments.

Some measures are expected to boost the securitization market in the medium term (the future action plan will make the "Capital Markets Union" effective within 2019). With regards to Italy, in the next future a reprise in issuances should be expected, especially if Italy will be able to develop a private market for non perfoming loans (NPLs). A number of factors affect negatively this development, a further obstacle to crisis resorption. Some measures to reduce the weight of NPLs in banks' balance sheets are still under evaluation, as – for example – the creation of a special purpose asset management company for the purchase of NPLs. The reduction of their weight on banks' balance sheets may bring several benefits, e.g., more transparency, enhancing banks' ability to attract capital and to operate on wholesale funding markets[4]. Moreover, the presence of a public guarantee on these securities may to induce private investors (and also foreign investors) to subscribe liabilities issued by the special purpose company. And it should be an opportunities for foreign banks, due their wide expertise in securitization market.

4.1.3 Project Finance

This section analyzes the Italian market of project finance and the role played by foreign intermediaries. According to past AIBE Reports, data have been extracted from League Table released by Thomson Reuters-Project Finance International (PFI). The tables record information about project finance operations in international markets, focusing on deal value, issuers' industrial sector and the financial intermediaries with the role of Mandated Lead Arrangers (MLA)[5].

In 2014, 20 operations with Italian issuers have been arranged, divided into 58 tranches. The deal value amounted to € 2.4 billion. Compared to 2012 data, it is worthy to notice that while the volumes were substantially stable, value decreased of € 1.2 billion (–34%). The Italian market of project finance is quite low-sized compared to other European countries, with a limited industrial sectors' diversification, and it struggles to regain positions compared to pre-crisis size. Volumes and deal values in the recent years, however, were quite volatile over time. In 2014 the market share held by foreign banks was equal 38% in volumes and 41.5% in values (€ 1 billion, about three times compared 2013-value). In recent years, the average market share held by foreign players – even if quite volatile – was equal to 53%.

[4] Bank of Italy, "Financial Stability Report", Number 1, April, 2015.

[5] As known, the MLA generally has the leading role in the financing stage of a project, underwriting the issue, then handling the syndication or the pool of lenders.

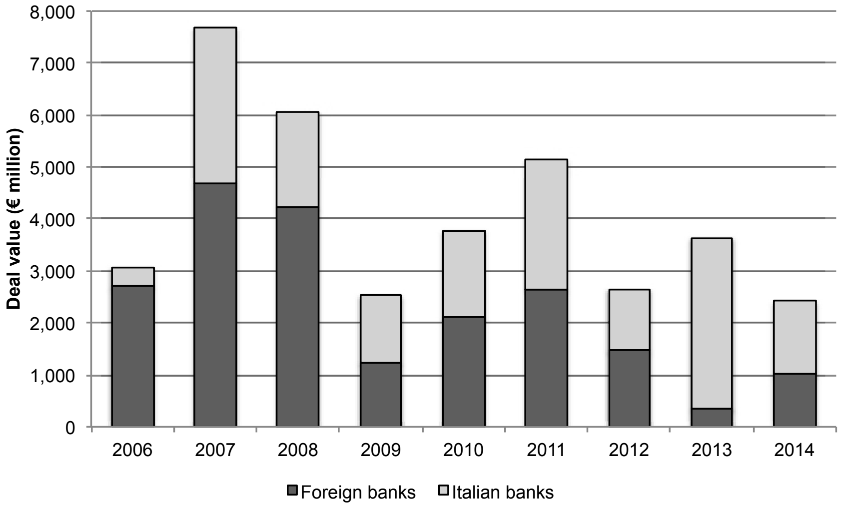
Tab. 3 – Project finance in Italy: market share held by Italian and foreign intermediaries (by number of tranches, 2006/14) – Source: Own elaboration on Thomson Reuters-PFI data

	2006		2007		2008	
	Number of tranches	**%**	**Number of tranches**	**%**	**Number of tranches**	**%**
Foreign banks	16	61.5	57	64.0	49	67.1
Italian banks	10	38.5	32	36.0	24	32.9
Total	**26**	**100**	**89**	**100**	**73**	**100**

	2009		2010		2011	
	Number of tranches	**%**	**Number of tranches**	**%**	**Number of tranches**	**%**
Foreign banks	25	52.1	41	39.8	49	51.0
Italian banks	23	47.9	62	60.2	47	49.0
Total	**48**	**100**	**103**	**100**	**96**	**100**

	2012		2013		2014	
	Number of tranches	**%**	**Number of tranches**	**%**	**Number of tranches**	**%**
Foreign banks	24	50.0	13	23.2	22	37.9
Italian banks	24	50.0	43	76.8	36	62.1
Total	**48**	**100**	**56**	**100**	**58**	**100**

Fig. 3 – Project finance in Italy: market share held by Italian and foreign intermediaries (by deal value, € million, 2006/14) – Source: Own elaboration on Thomson Reuters-PFI data



In 2014, the average value of a tranche assisted by foreign banks grew up from € 26.7 to € 45.5 million, higher than tranches assisted by Italian players (€ 39.2 million). Foreign intermediaries returned to show a preference in bigger deals.

In the "top ten" ranking, foreign banks returned to play a leading role: in 2013 we had only two foreign players within first 10 positions, while in 2014 they were 4 (Tab. 4). These four intermediaries held a market share equal to 30% over the total, and 36% of the total deal value referred to "top ten" players. These 4 leading foreign intermediaries, moreover, concentrate about 72% of the amount of tranches assisted by foreign players.

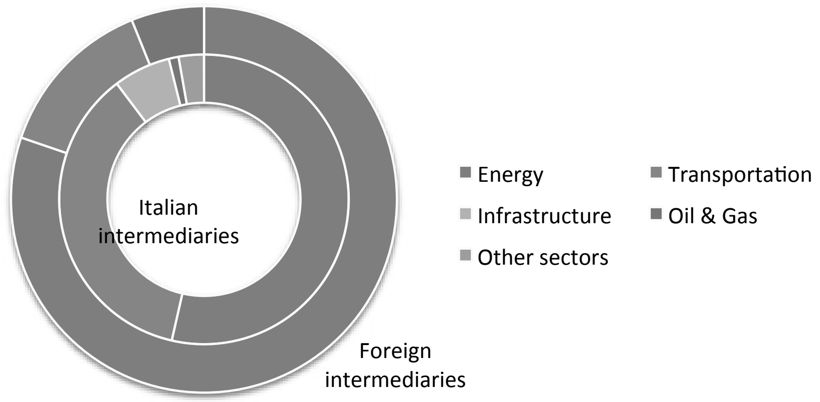
Tab. 4 – Project finance in Italy: league table of financial intermediaries by deal value (2014 issuances, € million) – Source: Own elaboration on Thomson Reuters-PFI data

#	Mandated Lead Arranger	Country	Total deal value	%
1	Intesa San Paolo	Italy	361.84	15.0
2	BNP Paribas	France	278.81	11.5
3	Cassa Depositi e Prestiti	Italy	257.73	10.7
4	Unicredit	Italy	240.57	10.0
5	Société Générale	France	195.26	8.1
6	Banca MPS	Italy	173.50	7.2
7	HSBC	UK	131.35	5.4
8	Mediobanca	Italy	131.35	5.4
9	Natixis	France	119.98	5.0
10	Unione di Banche Italiane Scpa	Italy	121.79	5.0
	Other foreign intermediaries		276.55	11.5
	Other Italian intermediaries		125.63	5.2
	Total		**2,414.38**	**100**

A modest sectoral diversification was confirmed also in 2014, as in previous years. In fact, as shown in Fig. 4, loans have been mostly granted to Energy and Transportation companies. Energy received about two-thirds of all 2014-issurances; moreover, this sector represented about 80% of the whole activity performed by foreign players (and 54% of the whole activity of Italian ones).

The remaining issuances assisted by foreign intermediaries were granted to Transportation (14%) and Oil & Gas companies (6%).

Fig. 4 – Project finance in Italy: loans breakdown by borrower's sector and by financial intermediaries' geographical origin (2014 tranches issuances, %) – Source: Own elaboration on Thomson Reuters-PFI data



4.2 Private equity and Venture capital

This section highlights data on Italian market of private equity and venture capital over the period 2009/2014. The role played by financial intermediaries in promoting and supporting the fund raising activities in the market and their market share are pointed out. The time series is based on data released by AIFI-Italian Private Equity and Venture Capital Association.

According to AIFI's data, the financial crisis has hit hard the development of Italian market of private equity and venture capital.

Between 1997 and 2008 we observed a constant growth of funds raised by investment companies and of capital invested in Italian companies, as well. The peak was reached in 2008, when investments were about € 5.5 billion. Since 2009, on the contrary, it is possible to notice a sharp decline in funding and investments.

The Italian private equity and venture capital industry is much less developed than other similar countries (capital flows are much lower than, for example, Germany and France). In 2014 private equity firms have been very active, with a growth in investments, while, on the contrary, fund raising activities were quite difficult.

Italy's non captive private equity firms raised € 1.35 billion in 2014 (almost twice the € 623 million raised in 2013), but data include also the commitment obtained by Fondo Strategico Italiano (FSI)[6], who received € 500 million from Kuwait's sovereign fund KIA. It means that without this allocation, capital raised would have been € 848 million. Captive funds raised € 129 million.

If we include funds provide by parent companies and the activity of international players based in Italy (the so-called pan-European funds) as well, the total amount of raised funds in 2014 was equal to € 2.077 billion, less than a half compared to previous period (€ 4.740 billion). 15 intermediaries have contributed to the raising funds, or four less than 2013.

Tab. 5 – Italian market of private equity and venture capital: fund raising trend (2009/14, € million and %) – Source: Own elaboration on AIFI data

	2009		2010		2011	
	Value	%	Value	%	Value	%
Independent funding	785	37.7	1,903	62.7	695	32.4
Funds raised by parent company	169	8.1	284	9.4	354	16.5
Capital gain	3	0.1	-	-	-	-
Total raised funds (a)	**957**	**46.0**	**2,187**	**72.0**	**1,049**	**48.9**
Pan-European funds based in Italy (b)	1,123	54.0	849	28.0	1,098	51.1
Total (a+b)	**2,080**	**100**	**3,036**	**100**	**2,147**	**100**

	2012		2013		2014	
	Value	%	Value	%	Value	%
Independent funding	947	48.9	623	13.1	1,348	64.9
Funds raised by parent company	407	21.0	3,423	72.2	129	6.2
Capital gain	1	0.1	1	0.0	-	-
Total raised funds (a)	**1,355**	**70.0**	**4,047**	**85.4**	**1,477**	**71.1**
Pan-European funds based in Italy (b)	582	30.0	693	14.6	600	28.9
Total (a+b)	**1,937**	**100**	**4,740**	**100**	**2,077**	**100**

In 2014 the pan-European funds have invested € 1,905 billion, with an annual growth of 39%.

[6] As known, Fondo Strategico Italiano Spa (FSI) is a holding company for equity investments. Its controlling shareholder is the Cassa Depositi e Prestiti (CDP) Group (80%), while the minority shareholder is the Bank of Italy (20%). FSI's share capital is open to other institutional investors, both Italian and foreign (http://www.fondostrategico.it/en/about-us/index.html).

According to AIFI data, there is an increased attention expressed by international funds to invest in Italy. The number of “expansion” deals, favoring the internazionalization process of the companies, increased. Moreover, the market size of “early stage” deals, focused on R&D investments, is also increased.

Tab. 6 – Italian market of private equity and venture capital: the geographical origin of raised funds (independent funds, 2009/14, € million and %) – Source: Own elaboration on AIFI data

Independent raising	2009		2010		2011	
	Value	%	Value	%	Value	%
From Italy	534	68.0	1,865	98.0	549	79.0
From abroad	251	32.0	38	2.0	146	21.0
Total	**785**	**100**	**1,903**	**100**	**695**	**100**

Independent raising	2012		2013		2014	
	Value	%	Value	%	Value	%
From Italy	843	89.0	461	74.0	431	32.0
From abroad	104	11.0	162	26.0	917	68.0
Total	**947**	**100**	**623**	**100**	**1,348**	**100**

As already mentioned, the independent fund raising is increased, from € 623 to € 1,348 million, as a consequence of the major contribution from foreign market players (grew up from 26% to 68% of the total independent funds from 2013 to 2014). In last three years, the domestic independent funds decreased from € 843 to € 431 million.

As shown in Tab. 7, over the period 2005/14 independent funds raised by banks has been the most important component (€ 2.8 billion, equal to 22.3% of the total). The share of funds of funds is quite close (21.8%). If we divide the time interval 2005/14 in two sub-periods (2005/08 or “pre-crisis stage” and 2009/14 or “crisis stage”), it is possible to highlight some differences in amount and sources of new funds raised on the market.

The share of new funds raised by banks, funds of funds and pension funds from abroad decreased from € 2,086 million to € 670 million, or from 60% to 20% of the sub-total. In particular new funds raised from foreign banks were close to zero in last 6 years. The positioning of other institutional investors also decreased: the share held by funds of funds decreased from 96% to 44% and the amount of new funds raised decreased by about 3 times; the share held by pensions funds went down from 54% to 14% and the amount raised has more than halved.

Tab. 7 – Italian market of private equity and venture capital: the composition and the geographical origin of new funds raised on the market (2005/14, € million and %) – Source: Own elaboration on AIFI data

Sources of new funds raised on the market	2005/08			2009/14		
	Italy	Abroad	Total	Italy	Abroad	Total
Banks	1,115	317	1,432	1,376	35	1,411
Funds of funds	60	1,510	1,570	676	529	1,205
Pension funds	224	259	483	626	106	732
Insurance companies	268	173	441	420	145	565
Private equity players	N/A	N/A	N/A	194	83	277
Other sources			2,508			2,111
Total			**6,434**			**6,301**

Compared to 2013, in 2014 we had a considerable increase in new raised funds from abroad by sovereign funds (€ 581 million) and by insurance companies (€ 91 million).

The amount invested in the Italian private equity and venture capital grew from € 3,430 million in 2013 to € 3,528 million in 2014 (+3%), driven by international players. Divestment activities were quite dynamic as well: the amount increased from € 1,933 to € 2,632 million (+36%), and the average amount of divestment grew up from € 16.2 to € 17.9 billion. As a consequence, we may say that Italian market is going to divest "oldest" investments and to shift towards new operations, especially M&A deals.

In the current market scenario, equity investments may offer very attractive yields: prices are good, companies have a relevant potential growth, so the need for risk capital is evident, especially in Europe, due to the current shortage of bank financing and the undercapitalization of many companies.

Expectations for 2015 are quite positive. A recent survey released by Roland Berger Strategy Consultants[7] shows that private equity activity is expected to grow at lover levels compared to 2014 in almost all European countries. Italy and Spain, in particular, will show the highest expected growth rates, at around 2%.

Domestic players, and foreign ones as well, look with a growing interest to Italian market and its opportunities. Challenges in the next future are important. The market size has to increase, in order to compete

[7] Roland Berger Strategy Consultants, "*The European Private Equity Outlook 2015*", February 2015.

with other European countries. Italian pension funds have to be much more involved, to support Italian companies in the medium/long term and to offer them an effective solution to diversify their capital structure. To assure a level playing field, especially within the fiscal framework, after the Directive on Alternative Investment Fund Managers (AIFM). To attract capital and investors from abroad. These challenges may increase the market size and the SMEs' access to financial markets, but – as recently remarked by Mr. Innocenzo Cipolletta, AIFI President – this also implies a much greater attention to rules, operating conditions and tax burden than in other countries[8].

4.3 Mergers & Acquisitions

According to the last KPMG "Mergers & Acquisitions" Report, the global M&A market recorded a turnabout in 2014. The completed deals amounted to 29,758 (+9% YoY), generating a total value of $ 2,468 billion, up 21% on 2013. It was the highest value in last five years, quite close to the 2008 figure, at the beginning of the economic crisis[9]. Cross-border activity increased worldwide, reaching 45% of the total value. Compared to other areas, Europe remained stable, with an increase in volumes (+11%), for a deal value equal to about $ 587 billion, substantially in line with 2013. The weakness in Eurozone economy, the difficulties in the companies' access to credit and some geopolitical tensions (Greek sovereign debt's crisis, Ukrainian crisis and the embargo against Russia) negatively impacted on European M&A in 2014.

With regards to Italy, the positive trend highlighted in 2013 was confirmed in 2014. Completed transactions grew up from 381 to 543, while value increased from € 31 to € 49.8 billion. 2014 was characterized by the comeback of large international investors, showing interest in Italian companies. Energy & Utilities, with a number of reorganization processes, and financial sectors were among the leading sectors.

The importance of cross-border activities is confirmed, especially thanks to foreign investors. In 2014 M&A deals with an Italian target

[8] I. Cipolletta "*Il bilancio istituzionale di un triennio*" [it], AIFI Annual Meeting, Milan, 20th March, 2015.
[9] KPMG, "Rapporto Mergers & Acquisitions. La ripresa si consolida, ma l'Italia è sempre più preda. Anno 2014" [English Version], KPMG Corporate Finance, 2015.

company and an acquiror from abroad were 201 (37% of the total), generating a value of about € 26.6 billion (53% of the total). Capital from emerging markets (China, Singapore, Russia, Brazil, and India), sovereign wealth funds (China and Persian Gulf countries) and private equity funds as well (from USA, United Kingdom and Gulf countries) are significantly changing the composition of M&A deals in Italy.

Between the emerging countries, China is the nation that has invested the most in Italy: it made 36 acquisitions between 2008 and 2014 for almost € 12.0 billion. In 2014 Chinese investments in Italy were about € 6 billion, of which about 50% were invested in Italian listed companies.

People's Bank of China acquired non-controlling interests (2%) in several "big" Italian companies (Generali Assicurazioni, ENI, Enel, Telecom Italia, Fiat Chrysler Automobiles, Prysmian, Mediobanca and Saipem). State Grid Corporation of China purchased the 35% of CDP Reti's equity, while Shanghai Electric Corporation acquired 40% of Ansaldo Energia.

Energy & Utilities macro sector was confirmed as a leading sector in foreign acquisitions in Italy in 2014 (€ 10.8 billion, more than 40% of the total value of deals involving foreign investors in Italy and about 22% of the total market size), followed by Consumer Markets sector (€ 8 billion). With regards to the number of operations, Industrial Markets and, once more again, Consumer Markets were leading sectors (respectively, 71 and 67 transactions).

The analysis of the geographical origin of acquirors highlights that United States, France and United Kingdom are still leading countries by number of closed deals. As mentioned, China was the main contributor, with an amount of € 6 billion (16 deals), followed by United Kingdom (€ 3.3 billion, 20 deals) and USA (€ 2.9 billion, 43 deals). Compared to 2013, USA showed a significant decrease in the average amount of deal (from € 210 to € 68.5 million), while Chinese investors almost doubled the value of their acquisitions, from € 3.3 to € 6 billion. The average amount of deals closed by Chinese acquirors amounted to € 373 million, suggesting that they were involved in "mega deals".

The remaining of this section highlights the role and the positioning of foreign M&A advisors in the Italian market, with regard to closed deals in 2014. Data have been extracted by the database Dealogic and supplemented with data released by KPMG M&A annual report. The market share of foreign advisors supporting target and acquiror companies has been calculated on the basis of the breakdown by geographical origin of intermediaries (solely or in pool) and of the deal value.

According to Dealogic, the value of transactions is equal to € 30.4 billion; the value is available for 290 out of 722 tranches of M&A closed deals. Moreover, we have at least one information about target advisor or acquiror advisor for 105 out of 290 tranches. For the remaining tranches no further analysis by intermediaries' geographical origin is possible.

Tab. 8 – The distribution of M&A deals value based on target advisor and acquiror advisor's geographical origin (2014, € billion and % over the total market size) – Source: Own elaboration on Dealogic data

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	12.2	40.2	2.7	9.0	0.2	0.6	1.3	4.3	16.4	54.1
Italy and abroad	1.3	4.4	0.2	0.7	0.1	0.2	1.1	3.7	2.7	9.0
Italy	0.6	1.9	1.3	4.1	0.5	1.5	0.4	1.5	2.8	9.1
N/A data	2.3	7.5	0.7	2.3	0.4	1.5	5.0	16.5	8.4	27.8
Total	**16.4**	**54.1**	**4.9**	**16.2**	**1.2**	**3.8**	**7.9**	**25.9**	**30.4**	**100**

As shown in Tab. 8, the size of deals involving at least one foreign advisor was quite significant. They have been involved in 88 out of 290 tranches, equivalent to € 24 billion (79% of the total). Transactions carried out with foreign advisors both for target and bidder were 21 (€ 12.2 billion, 40.2% of the total).

Tab. 9 highlights the distribution of M&A transactions closed in 2014 based on target company's industrial sector and target advisor's geographical origin. The role of foreign advisors was more significant in Healthcare (€ 3.3 billion, 10.8% of the total market size), Telecommunications (€ 3.1 billion), Utility & Energy (€ 2.8 billion) and Auto/Tuck (€ 2.6 billion) sectors. The market share held by these 4 leading sectors was about 39% of the total market size; moreover, it was 72% of the total deal value referred to transactions in which target company was supported only by one or more foreign advisors.

If we refer to the whole Italian M&A market in 2014, the leading sectors were confirmed. The first 4 held a market equal to 50% of the total deal value.

The analysis provides similar results if we focus on bidders' industrial sectors and the geographical origin of their advisors: Healthcare, Telecommunications, Auto/Truck and Utility & Energy occupied first 4 positions, with a market share equal to 37% of the whole market. Actually, it also means that M&A deals were, most of all, intra-sectoral (€ 21.7 billion, equal to 71% of the total market size).

A further analysis has been carried out on data released by KPMG in its annual report on Italian M&A market. Referring to the first 10 biggest deals, we crossed the type and the geographical origin of the advisors, on the basis of Dealogic database, to estimate if foreign intermediaries have higher market shares in arranging the biggest deals (Tab. 10).

Tab. 9 – The distribution of M&A deals value based on target company's industrial sector and target advisor's geographical origin (2014, first 10 industrial sectors by foreign advisors' market share, € billion and %) – Source: Own elaboration on Dealogic data

Target companies' industrial sector	Geographical origin of target advisor parent												Total industrial sector (a)	
	abroad			Italy and abroad			Italy			N/A data				
	Value	% on (a)	% on total (b)	Value	% on (a)	% on total (b)	Value	% on (a)	% on total (b)	Value	% on (a)	% on total (b)	Value	% on total (b)
Healthcare	3.3	10.8	19.9							0.3	1.1	4.1	**3.6**	11.8
Telecommunications	3.1	10.2	18.9	0.4	1.3	8.2	0.1	0.2	4.4	0.3	1.1	4.4	**3.9**	12.8
Utility & Energy	2.8	9.3	17.1	0.1	0.4	2.4	0.3	1.1	29.5	1.3	4.3	16.5	**4.6**	15.1
Auto/Truck	2.6	8.7	16.1	0.6	1.8	11.3							**3.2**	10.5
Finance	1.4	4.7	8.8	0.8	2.5	15.4	0.0	-	0.2	0.6	1.8	7.1	**2.8**	9.1
Insurance	0.7	2.4	4.5							0.8	2.5	9.6	**1.5**	4.9
Machinery	0.4	1.5	2.7	0.0	0.2	1.0				0.1	0.2	0.7	**0.5**	1.8
Consumer Products	0.3	1.1	1.9	1.6	5.3	32.8				0.1	0.3	1.1	**2.0**	6.6
Real Estate/Property	0.3	1.0	1.8				0.1	0.4	10.3	1.0	3.4	13.1	**1.4**	4.8
Retail	0.2	0.7	1.3							0.1	0.4	1.6	**0.3**	1.1
Other sectors	1.1	3.8	7.0	1.4	4.7	28.9	0.6	2.1	55.6	3.3	10.9	42.0	**6.5**	21.5
Total (b)	**16.4**	**54.1**	**100**	**4.9**	**16.2**	**100**	**1.2**	**3.8**	**100**	**7.9**	**25.9**	**100**	**30.4**	**100**

Tab. 10 – The distribution of top ten M&A deals value based on advisors' role and geographical origin (2014, € billion) – Source: Own elaboration on Dealogic data and KPMG report

"Top ten" operations - Deal value	Target advisor		Acquiror advisor	
	Value	**%**	**Value**	**%**
With foreign financial advisor	14.1	48.8	9.9	34.4
With foreign and Italian financial advisor	-	-	6.2	21.6
With foreign advisor, different role	4.2	14.4	-	-
With Italian advisor, different role	-	-	2.1	7.2
N/A data	10.6	36.8	10.6	36.8
Total	**28.8**	**100**	**28.8**	**100**

With reference to the "top ten" transactions closed up in 2014, these deals generated a total value of about € 28.8 billion (+78% compared to 2013), accounting for more than half of the Italian M&A market in 2014. 7 out of first ten operations are inbound cross-border deals: bidders came from 6 different countries, 3 of which being non-European Union countries (Russia, Switzerland and China). The deal value of these operation amounted to 53% of "top ten" deals and about 31% of the whole market size. Foreign advisors and intermediaries have played a relevant role in supporting companies involved in top ten M&A deals. They provided advisory services both to target companies and acquirors. As shown in Tab. 10, foreign financial advisors for target companies have been involved in M&A deals representing the 48.8% of the first ten deals' value.

Some estimations on 2015, as provided by KPMG, suggest a positive flow of M&A deals. Foreign investors will continue to monitor Italian companies, looking for small-medium sized investments with importance expertise and well-known brands. The stream of foreign acquisitions in Italy is expected to continue to flow in a number of sector. Financial and banking sector are involved in consolidation process, in order to strengthen the financial structure and face higher capital requirements. Industrial, real estate and infrastructure sectors are very dynamic as well. Some important privatizations (Poste Italiane SpA, Sace, Enav and Grandi Stazioni) are expected to be completed within end-2015.

M&A also are going to revitalize the activities of investment banks: among them some "giants" are foreign investment banks which have been involved in "top ten" closed deals in 2014.

CHAPTER 5. ADVISORY AND OPERATIONS ON CAPITAL MARKETS AND IN DERIVATIVES INSTRUMENTS

Advisory activities and the support in all activities on international financial markets, devoted to the issuance of financial securities and the financial funding are among the most important services offered by foreign banks to Italian companies.

This chapter offers a brief analysis about the role and the positioning of foreign advisors and bookrunners involved in arranging and issuing financial securities by Italian companies (sections 5.1 and 5.2), as well their role in MTS market (wholesale trading, section 5.3), in Cash and Idem markets (retail trading, section 5.4), and in derivatives negotiated on the Italian market (section 5.5).

5.1 Debt Capital Markets

Referring on Debt Capital Markets (DCM) issuances, we extracted from Dealogic DCM-database the most relevant information about: the amount of loan, issuers, deal type, and financial intermediaries involved in the issuances. This section highlights and summarizes the role and the positioning (market share) held by foreign bookrunners in DCM issuances by Italian borrowers.

According to Dealogic database, in 2014 the whole deal value of DCM issuances was equal to € 124.8 billion, with a slight decrease compared to previous year (–4%); on the contrary, the number of issuances increased significantly, from 163 to 200. These deals have been divided in 228 tranches (they were 191 in 2013). The market size is back to the average size in the pre-crisis period.

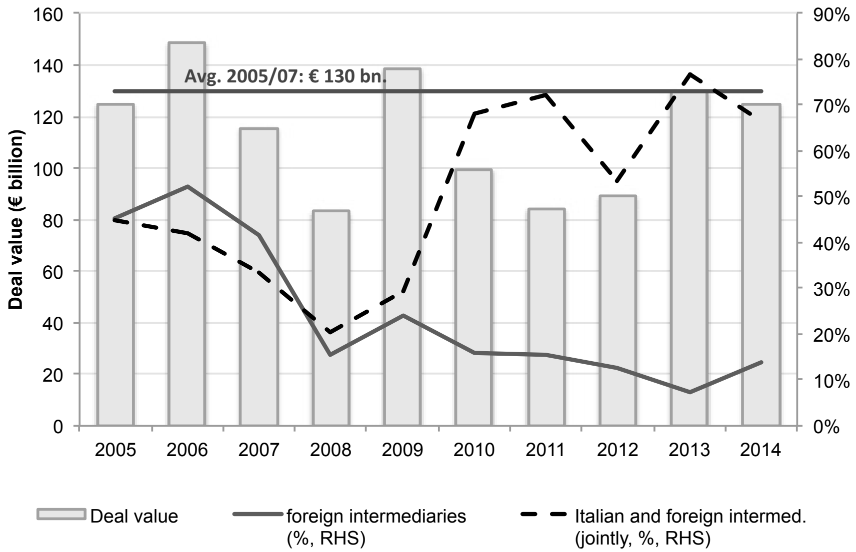
As shown in Fig. 1, the market share held by foreign bookrunners (as solely bookrunners) increased from 7% to 14%; on the other hand, the share held by international pools, composed of domestic and foreign players, reduced from 77% to 66%.

On aggregate, however, the positioning of foreign intermediaries remain very significant. In 2013 they supported – as a solely bookrunners – Italian issuers for a value of about € 17.2 billion; on the other hand, international pools assisted the issuances of € 82.8 billion.

Therefore, the market share held by foreign intermediaries was about 80%.

We analyzed the geographical original of bookrunners per each tranche. Biggest loans have been issued thanks to the support of international syndicates: these pools placed about 44% of total number of tranches (100 out of 228), for an average amount per unit equal to about € 828 million. Actually, the average size of loans placed by Italian intermediaries is much more lower (€ 335 million), as well the average dimension of loans placed by foreign solely bookrunners (€ 319 million).

Fig. 1 – DCM issuances by Italian borrowers: total annual deal value (2005/14, € billion) and market size of bookrunners by geographical origin (%, right-hand scale) – Source: Own elaboration on Dealogic data



The loans' distribution by industrial sector is summarized in Tab. 1. It confirms the leading positions of public issuances (Central Government, € 40.6 billion, 33% of the total) and issuances in Finance sector (€ 61.1 billion, 49% of the total).

Foreign intermediaries – as solely bookrunners – have placed issuances for a number of borrowers operating in different industrial sectors: public sector, Finance and Telecommunications companies were the leading ones. In fact, they counted for 83% of the total deal value of loans exclusively supported by foreign intermediaries.

Public issuances have been mostly assisted by international pools of intermediaries (€ 19 billion) or by Italian intermediaries (€ 20.6 billion).

If we look to the "top ten" league table ranked by single tranche, in the first 10 positions we have 4 public issuances, 4 referred to Telecommunications companies, while 2 remaining are within the financial/banking sector. The total value of these issuances was about € 49.8 billion, equal to 40% of the market. Foreign intermediaries have been involved – jointly with Italian players – in 9 out of these 10 issuances, having assisted € 29.3 billion. Data and market share are quite stable compared to 2013-data. As expected, the biggest deals have been assisted by an international pool of advisors.

It is also interesting to analyze the number of participants to any single issue. In 2014 103 tranches have been issued with the support of a single bookrunner, of which 30 a foreign player. The issued amount was about € 6.5 billion, or 5% of the whole market size. A single domestic intermediary assisted 73 tranches, for a value of € 4.2 billion.

Moreover, we observed 17 tranches assisted by a pool composed of 2 or 3 foreign players, while 7 tranches were assisted by a pool including at least 4 foreign intermediaries. On the other hand, as expected, the average size of pools involving foreign and Italian advisors is bigger. 21 tranches were assisted by pools with 2 or 3 intermediaries: the amount issued was € 12.4 billion (10% of the total). More significant is the role of pools composed of 4 to 6 intermediaries: they assisted 64 tranches (28%), corresponding to a value of € 55 billion (44% of the total).

In terms of deal type, foreign banks mostly assisted the issuance of corporate bonds (€ 7.7 billion), for the majority rated as "*investment grade*" securities. Also covered bonds' issuances (€ 2.4 billion) and securitization (€ 7.3 billion, see Chapter 4) remained relevant. Also 2014-data confirm that the deal type's analysis does not suggest any specialization on Debt Capital Markets for foreign bookrunners. Actually, corporate bonds are the leading deal type (€ 58.3 billion, 47% of the total) if we consider the whole market size in 2014.

Tab. 1 – DCM issues by Italian borrowers: total deal value by geographical origin of bookrunners and issuers' industrial sector (2014, top 8 sectors by total deal value, € million and %) – Source: Own elaboration on Dealogic data

Issuer's Industry Group	Geographical origin of bookrunner parent									Total Industry Group (a)		
	Foreign intermediaries				Italian and foreign intermediaries				Italian intermed.			
	Deal value	**% on (a)**	**% on (b)**	**#**	**Deal value**	**% on (a)**	**% on (b)**	**#**	**Deal value**	**Deal value**	**% on (b)**	**#**
Finance	12,353.0	20.2	71.7	*1*	44,754.9	73.2	54.0	*1*	4,025.8	61,133.7	49.0	*1*
Government	1,000.0	2.5	5.8	*2*	19,006.0	46.8	22.9	*2*	20,564.6	40,570.6	32.5	*2*
Telecommunications	1,000.0	10.0	5.8	*2*	8,959.1	90.0	10.8	*3*		9,959.1	8.0	*3*
Utility & Energy	852.0	20.0	4.9	*4*	3,400.0	80.0	4.1	*4*		4,252.0	3.4	*4*
Auto/Truck	707.1	27.7	4.1	*5*	1,850.0	72.3	2.2	*5*		2,557.1	2.0	*5*
Oil & Gas	350.0	15.9	2.0	*7*	1,850.0	84.1	2.2	*5*		2,200.0	1.8	*6*
Industrial	350.0	20.8	2.0	*7*	1,250.0	74.4	1.5	*7*	80.0	1,680.0	1.3	*7*
Infrastructure	72.8	6.2	0.4	*10*	1,100.0	93.8	1.3	*8*		1,172.8	0.9	*8*
Other sectors	550.0	42.3	3.2		650.0	50.0	0.8		100.0	1,300.0	1.0	
Total (b)	**17,234.8**	**13.8**	**100**		**82,820.0**	**66.3**	**100**		**24,770.4**	**124,825.3**	**100**	

Note: columns labeled with "#" contain the ranking of each industry group compared to the total deal value placed, respectively, by foreign intermediaries and by international pools, and compared to the total market size.

As shown in Tab. 2, foreign intermediaries as solely bookrunners hold a relevant market share in loans' tranches from € 100 million up to € 1 billion (€ 15.2 billion, equal to 88% of their activity). On the other hand, international pools were mainly active in assist issuances from € 500 million up € 5 billion. The amount referred to these issuances was about € 54.7 billion, equal to the 44% of the total market size. Compared to 2013-data, foreign intermediaries moved towards bigger deals, while international pools confirmed their leading role in large-sized deals. One Italian bank, as a solely bookrunner, was involved in the public issuance of the deal (1 tranche) amounting to € 20.6 billion. However, this in an exception, because – in the other cases – Italian players were mostly active in smallest tranches' issuances.

Tab. 2 – DCM issues by Italian borrowers: distribution of the deal value (tranche value) by size and geographical origin of the bookrunners (2014, € million) – Source: Own elaboration on Dealogic data

Tranche value	Geographical origin of bookrunner parent			Total
	Foreign intermediaries	Italian and foreign interm.	Italian intermediaries	
Up to € 10 million	6.0	15.0	146.4	167.4
€ 10-100 million	783.5	455.1	2,091.5	3,330.1
€ 100-500 million	7,164.7	13,126.7	1,383.0	21,674.4
€ 500 million-1 billion	8,030.7	31,505.5	585.0	40,121.2
€ 1-5 billion	1,250.0	23,211.7		24,461.7
More than € 5 billion		14,506.0	20,564.6	35,070.6
Total	**17,234.8**	**82,820.0**	**24,770.4**	**124,825.3**

5.2 Equity Capital Market

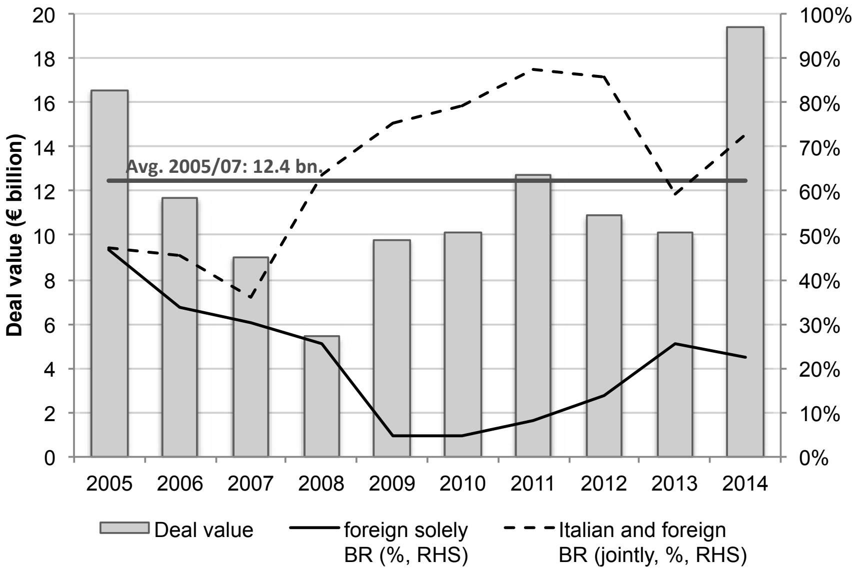
This section points out the positioning of foreign investment banks and specialized financial intermediaries in supporting Italian companies in equity issuances. Consistently with previous AIBE's reports, data have been extracted from Dealogic ECM (Equity Capital Market) database. Data refer to Initial Public Offerings (IPO), rights offer, accelerated bookbuild and convertible bond issues.

The whole market size in 2014 has been equal to € 19.4 billion, with an increase of about € 9.4 million (+ 92%) compared to 2013, as a result of 64 operations, or 16 more than 2013.

Also in 2014 the market share held by foreign intermediaries was very significant and essential in order to support Italian companies in equity markets. Foreign bookrunners participated to 37 out of 64 deals, with a market share equal to 95.3% (Fig. 2). More in detail, foreign intermediaries as solely bookrunners have supported 13 out of 64 operations (€ 4.4 billion); international pools with foreign and domestic bookrunners have been involved in 24 out of 64 operations, for a total value of about € 14.1 billion.

Compared to the average size of the market in the pre-crisis period (2005/07), the deal value in 2014 has increased by about 56%. Also the growth in the number of deals (+16 operations) may suggest an important return in confidence on equity markets.

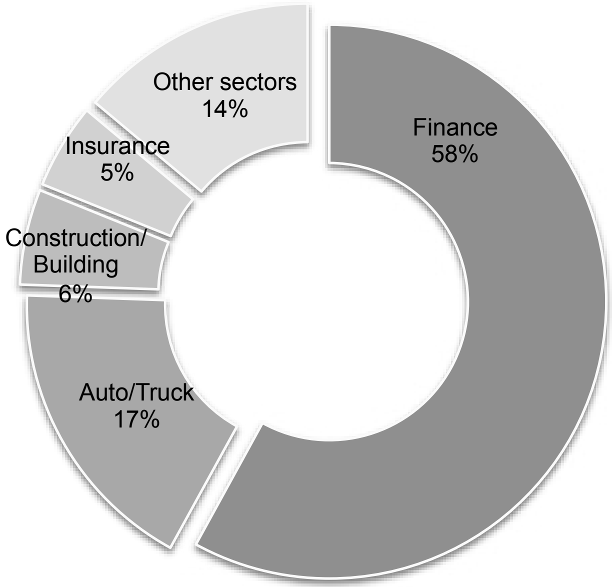
Fig. 2 – Equity Capital Market: distribution of deal value (Italian issuers, 2005/14, € billion) and market share of bookrunners by geographical origin (%, right-hand scale) – Source: Own elaboration on Dealogic data



With reference to the issuer's industrial sector (Fig. 3), ECM deals closed up in 2014 have mainly involved companies in Finance (€ 11.2 billion), Auto/Truck (€ 3.4 billion), and Construction & Building (€ 1.1 billion) sectors. Foreign intermediaries participated in 18 out of 20 issues in these sectors. In particular, 4 placements have been supported by pools involving only foreign intermediaries; other 14 deals, on the contrary, have been supported by international pools, with also the participation of one Italian bank.

The distribution by industrial sector shows that Italian equity market is very concentrated: Finance and Auto/Truck sectors represent about the 75% of the total market. Moreover, a few number of large deals has a very significant weight on the overall market size. In fact, the market share of the first 5 operations is approximately 54% of the total; the weight rises till 71% if we consider the first 10 deals. Moreover, the latter – in 10 out of 10 deals – have seen the presence of at least one foreign bookrunner.

Fig. 3 – Equity Capital Market: distribution of the deal value by issuer's industrial sector (2014, %) – Source: Own elaboration on Dealogic data



The size of foreign investors as shareholders of Italian companies listed on the stock exchange is growing. These investors are mainly from China, Russia and the Middle East.

Consob, the regulator for financial markets in Italy, in its Annual Report for 2014 points out that last year 61% of the 813 communications of relevant positions (over 2%) in the share capital of groups listed on Milan Stock Exchange came from foreign investors: in 2013, it was just 44%. And the volume of investments in listed Italian companies by institutional investors from China, Russia and some Arab countries overpassed € 11 billion. The figure, updated to the 30th of April 2015, is likely to be underestimated, as it takes into account the shareholdings only when they went over the 2% threshold.

As for April 30th, 2015, there are twenty Italian companies in which a main shareholder comes from China, Russia or the Arab world. China's Popular Republic, last year, rose by several positions in the ranking of foreign countries with investments in Milan Stock Exchange listed companies.

From a recent analysis carried out by Il Sole 24 Ore on S&P Capital IQ’s figures, it emerged that the overall value of shares held by Chinese investors on Milan Stock Exchange exceeds € 3.6 billion. People’s Bank of China (PBOC) was the leading investor. PBOC holds more than 2% in Eni, Saipem, Telecom Italia, Prysmian, Mediobanca, and Generali. The value of the Italian equity portfolio hold by PBOC is about € 3.4 billion. The Chinese bank is the 11th foreign investor in a ranking that is topped by American behemoths Blackrock (€ 24.4 billion of equity) and Vanguard (€ 11.8 billion), besides Norway’s sovereign fund (€ 8.1 billion.) A noticeable leap, since at the end of 2013 the total value of equity investments coming from China was just € 11 million.

The total amount of equity investments hold by foreign institutional investors in Milan Stock Exchange listed companies is equal € 238 billion, or about 41% of the whole Milan Stock Exchange capitalization, 3 percentage points higher than previous year.

Moreover, according to last Consob’s Annual Report, foreign investors were active during annual meetings: the presence of institutional investors grew up from 15% to 19% of the equity, mainly thanks to foreign institutional investors. Their weight, as a matter of fact, reached about 18% of the shares, while domestic institutional investors were stable at around 1%.

According to IR Top annual survey, based on Consob’s data updated in February 2015, the attention of foreign institutional investors is growing. On the Star segment of Borsa Italiana (Italian Stock Exchange) they are 82% of total qualified investors (51 out of 62), holding an investment of about € 2.1 billion (92% of the total held by qualified investors). They are mainly from United Kingdom and USA. Compared to previous year, new entries from abroad were 12.

5.3 Trading on MTS

MTS Italy is the wholesale market for Italian Government bonds. According to data provided by MTS Markets[1], the market share held by foreign investors has been very relevant also in 2014, confirming last years' trend.

In 2014 MTS active participants were 111 (+1 on annual basis), of which 45 coming from abroad, one less than 2013.

During last year, the average daily volumes on both MTS Cash and BondVision were broadly higher than those of 2013; the average bid-ask spread on BTP was low, as well the liquidity risk premium on Italian Government bonds. Exchanges in MTS-special repo have intensified: the average cost, quite low during 2014, did not significantly increase in 2015-Q1, reporting that the purchase of Government bonds by Eurosystem didn't negatively affect the availability of these securities for repos or the overall secondary market liquidity[2].

According to Bank of Italy's statistics, on MTS Cash the average daily volumes increased from € 3.6 to € 5.8 billion, in particular in the first half of 2014. The largest share of trading on MTS cash is confirmed on different BTP's maturities: in 2014, in this segment the average daily volumes were just under € 2.9 billion (+65% compared to previous year). Compared to the total referred to MTS cash, the market share of this segment was equal to 49%, similar to 2013 data.

On MTS Repo, the average daily volumes were almost stable compared to previous year (from € 73.5 to € 73.6 billion, increased to € 78.1 billion in the first quarter of 2015). Special repo was confirmed as leading sector (73% of the total).

Also BondVision in 2014 experienced a significant increase YoY in average daily volumes, from € 2.4 to € 3 billion. The growth resulted particularly strong in the first half of 2014. BTP, with average daily

---

[1] AIBE and the Authors thank MTS SpA for data provided. MTS SpA facilitates a regulated market for the wholesale electronic trading of Italian Government bonds and other types of fixed income securities. MTS SpA also manages BondVision, the wholesale market in Government securities for institutional investors. The MTS has two segments, one for spot trades (MTS Cash) and one for repos (MTS/PCT). MTS Cash is an interdealer market whose participants, including remote members, must satisfy minimum capital and professional requirements. BondVision is a "dealer to customer" market that allows institutional investors to request MTS market makers to make quotes on Government securities.

[2] Bank of Italy, "*Relazione annuale sul 2014*" [it], Rome, May, 26th, 2015, p. 136.

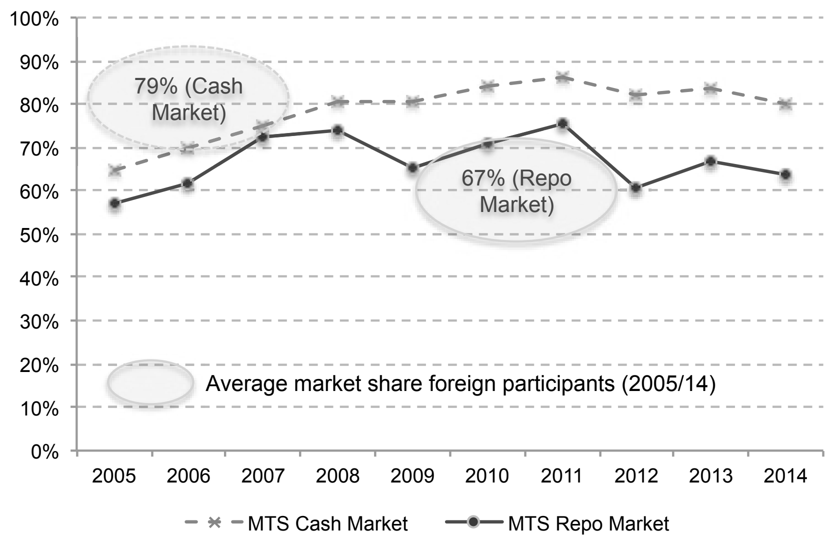
volumes equal to € 1.6 billion, and BOT (€ 606 million) were the most traded securities on BondVision.

In 2014 the market share held by foreign players active on MTS Cash was equal to 80%, comparable to last years' trend (Fig. 4). The share was very significant in almost all segments in which MTS Cash is divided in (according to different Italian Government bonds' securities).

On MTS Repo the market share held by foreign players was equal to 64%, and even higher in the BTP segment.

Foreign intermediaries were also among the most active players: actually, in 2014 the 15 most active operators held a market share equal to 78% on MTS Cash and 58% on MTS Repo. Within this cluster, foreign participants expressed, respectively 79% and 72% of the total volumes traded by "top 15" operators.

Fig. 4 – MTS Italy: market share held by non-resident participants (Cash and Repo segments, 2005/14, % of volumes) – Source: MTS Markets



5.4 Trading on Cash and Idem markets

This section highlights market shares held by non-resident intermediaries in listed securities' trading on Italian regulated markets. Data have been extracted by ASSOSIM's reports and annual statistics[3].

At the end of 2013, 69 financial intermediaries, of which about 25% non-resident, were Assosim's members. Assosim's statistics are significant compared to volumes negotiated on Borsa Italiana's markets.

5.4.1 The analysis of Cash market

In 2002 the weight of foreign ASSOSIM's members was a little less than one third (31.5%) of values traded on equity securities on regulated stock markets. In the following years, market share reduced; however, changes were limited to a few percentage points. In 2014, the market share held by foreign ASSOSIM's members on volumes in Cash market was equal to 22%, with a slight decrease compared to end-2013 data (25%). ASSOSIM's members represented 51% of the volumes negotiated, so foreign intermediaries hold a market share equal to 43% of the total referred to ASSOSIM's members.

Foreign players confirmed to be among the most active ones. The league table by market share on values traded on their own account shows that 6 out of first 10 players are foreign investment banks (7 at the end of 2013). These banks concentrate 28.4% of the total market value. As the ASSOSIM's members represent about 31% of the total market, we may estimate that foreign banks negotiate about 91% of the value referred to ASSOSIM's members.

In the remaining market segments, the market share held by foreign players is more volatile. 2014's data are quite similar to previous years' ones. The role of foreign investment banks is more relevant in SeDeX and ETF plus segments. 4 foreign intermediaries are active on SeDeX and one of them is included in "top ten". In 2014 they contributed to the 12.3% of the market value, with a decrease of about 4 percentage points compared to 2013-data. In ETFplus segment, 8 foreign intermediaries

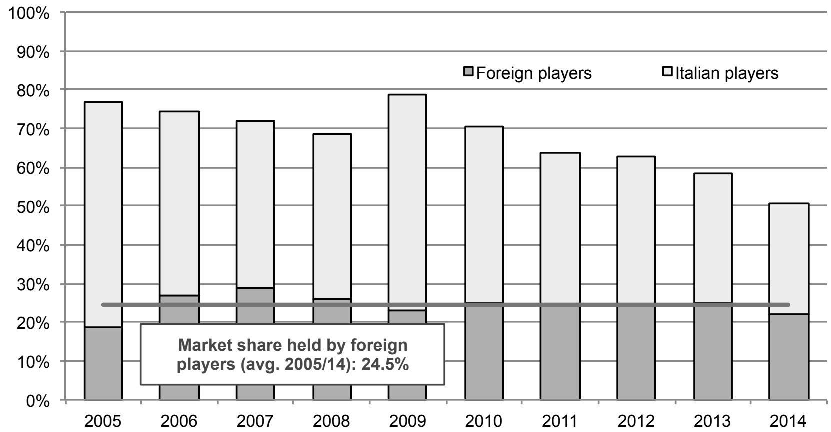
---

[3] ASSOSIM (Associazione Italiana Intermediari Mobiliari) is the Italian Association of Financial Intermediaries, which represents the majority of financial intermediaries acting in the Italian markets. ASSOSIM has nearly 80 members represented by banks, investment firms, branches of foreign brokerage houses, and trading venues, active in the Investment Services industry, mostly in primary and secondary markets of equities, bonds and derivatives, for some 82% of the total trading volume (Source: ASSOSIM's website, "*What is Assosim*").

operated in 2014, two of them included in “top ten” league table. These 8 players hold a market share equal to 12.7% of the total market value, i.e. about the 33.4% of the total market value referred to ASSOSIM’s members.

On the other hand, the positioning of foreign participants resulted less relevant in bond securities’ segments (DomesticMOT and EuroMOT). In these segments three ASSOSIM’s foreign members are present and the market value was less than 2% of the total market value. However, it should be noticed that, referring to DomesticMOT segment, ASSOSIM statistics cover less than two thirds of the total market value. So, we may assume that the actual market share held by foreign players is higher.

Fig. 5 – Recent trend in market share held by ASSOSIM’s members (2005/14, % of volumes traded on Cash market, equity segment) – Source: Own elaboration on ASSOSIM data



5.4.2 The analysis of Idem market

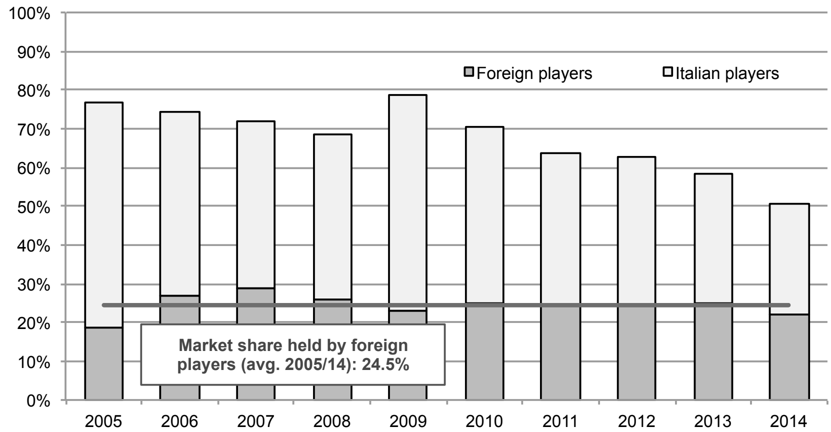
This section outlines, according to ASSOSIM data, market shares held by Italian and foreign intermediaries, based on the number of exchanged contracts in different segments.

In 2014 the number of ASSOSIM’s members included in these statistics was 24, of which 8 coming from abroad, with a decrease of two units compared to previous year.

The market share held by foreign intermediaries is quite different among different segments in which Idem market is divided in. Highest shares are pointed out in stock futures’ segment, in which the share is about 28% of the total number of exchange contracts, with a sharp decrease compared to previous year (59%, Fig. 6). However the percentage is quite close to the average share of last ten years. Moreover, foreign players held the 70% (in 2013 it was 81%) of the total exchanged by ASSOSIM's members.

The market share held by foreign investors in derivatives contracts on S&P/MIB (futures and options) is, respectively, about 12% and 19%. Values are comparable to 2013's statistics. Due to the size of ASSOSIM's members sample compared to the total of the market, it is possible to point out that foreign investors negotiate the majority of contracts exchanged by ASSOSIM's members in both segments.

Fig. 6 – Recent trend in market share held by ASSOSIM's members (2005/14, % of the number of stock futures exchanged contracts on Idem market) – Source: Own elaboration on ASSOSIM data



5.5 The operations on derivatives instruments

This section highlights the positioning of foreign intermediaries within Italian derivatives market.

For the purpose of this Report, as in previous ones, first of all international trading on derivatives will be pointed out, according to BIS statistics. Secondly, data resulting from periodic Bank of Italy's survey on the trading of over-the-counter (OTC) derivatives in the Italian market will be briefly discussed.

According to BIS data, at the end of 2014, the amount outstanding related to futures and options exchanged in regulated markets was equal to $ 64,843 billion (+1.2% YoY), of which about $ 27,154 billion referred to futures and $ 37,689 billion in options. The annual positive change in the futures' amounts outstanding (+ $ 1,365.8 billion) has been partially offset by the annual decrease in options (– $ 621.3 billion).

With regards to amounts outstanding referred to derivatives exchanged in OTC markets, BIS' statistics point out that a the end of 2014 the notional amount was about $ 630,149 billion, with a decrease of $ 80,484 compared to end-2013 data. The figure returned close to end-2012 amount, while in 2013 the OTC market experience a huge growth. In 2014, on the contrary, the downsizing of the market was important in almost all risk categories.

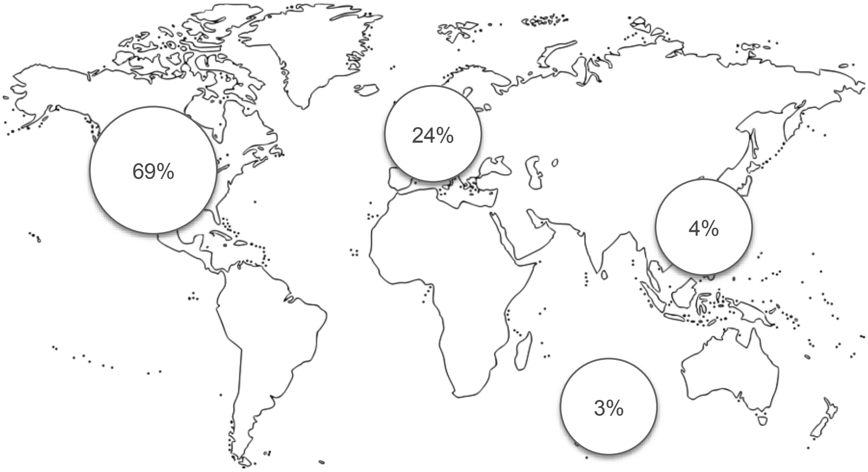
Interest rate contracts continue to take the lead, with an amount of $ 505,454 billion (82% of the total, and a fall of 14% YoY). Foreign exchange contracts held a market share equal to 10%, with an amount outstanding of $ 75,879, grew up of 8% in 2014. Credit-default swaps (CDS), which became a well-known derivative contract during the crisis of sovereign debt, had a weight very limited, explained by an amount outstanding of $ 16,399 and a market share equal to 3% and stable compared to previous year. CDS' amount outstanding, however, reduced by 22%, the most severe fall in risk categories tracked in BIS statistics.

The decrease in CDS is even more important if we look to last 3 years. Actually, at the end of 2012, the amount outstanding was $ 25,068 billion. So, over the period 2012/14, the change is equal to –35%.

If we merge OTC contracts, future and options, we may estimate that the aggregate size of derivatives markets is about $ 695 trillion of amounts outstanding, with a decrease of 10% YoY. Regulated markets maintained a stable weight, as they counted for about 9.3% of the total.

The breakdown by location of amounts outstanding is available only for derivative financial instruments traded on organized exchanges (i.e., futures and options). As reported in Fig. 7, these financial instruments are mainly traded in North America and Europe (93% of the notional amount outstanding at the end of 2014).

Fig. 7 – Distribution of notional value of derivatives instruments exchanged in regulated markets (December 2014, futures and options) – Source: Own elaboration on BIS data



During 2014, however, the market share of North-American market grew up by about 14 percentage points, from 55% to 69%; this increase has been substantially offset by the decrease in market share held by European markets, downsized from 38% to 24%. The most relevant recomposition took place within options' markets, where North-American markets gained more than $ 7.7 trillion, while European locations lost about $ 7.2 trillion.

With regard to Italian derivatives market, some aggregate data are provided by Bank of Italy and summarized in two surveys.

First of all, Bank of Italy monitors every six months (end-June and end-December) the outstanding exposures on OTC financial and credit derivatives drawn from a sample survey of the Italian banking groups most active in the segment[4].

[4] The survey points out the notional amount and the gross market value (positive and negative) of derivative contracts on currencies, interest rates, stocks, stock indexes, commodities and CDS. Starting from the first half of 2012, the sample of Italian banks monitored is composed by Banca Monte dei Paschi di Siena, Banco Popolare, Intesa Sanpaolo, Mediobanca, UBI Banca, and Unicredit. These players hold over the 90% of transactions in OTC financial and credit derivatives closed by Italian banking groups (Bank of Italy, "*Rilevazione sui prodotti derivati over-the-counter a fine dicembre 2014*" [available only in Italian], press release, June, 3rd, 2015. These players hold over the 90% of transactions in OTC financial and credit derivatives closed by Italian banking groups.

At the end of December 2014, the notional value of credit and financial derivatives was about \$ 7,245 billion, of which \$ 6,890 billion on financial derivatives on interest rates. Values decreased of about 20% in last year. The fall was both of financial derivatives and credit derivatives. In particular, CDS bought and sold decreased from € 508 to € 354.6 billion, consistent with global data released by BIS.

OTC financial derivatives have, for the high majority, a financial institution as a counterparty: the market share held by financial operators is about 86% for foreign exchange contracts, 92% for interest-rate contracts and 97% for equity-linked contracts. Percentages remained stable over the last period. With regards to CDS, all outstanding contracts had a financial institution as a counterparty.

According to last triennial Bank of Italy's survey on the volume of transactions carried out on foreign exchange and interest-rate contracts by the leading resident banks, we may point out the about 73% of the turnover is related to exchanges with non-resident banks[5]. If we assume that data has not changed significantly over the last period[6], we could estimate that the notional value of trading on derivatives with non-residents amounts to about \$ 4,800 billion and foreign intermediaries hold a market share of about 67% of the total amount of financial and credit OTC derivatives traded in Italy.

[5] Banca d'Italia, "*Il turnover dei mercati dei cambi e derivati in Italia*" [it], press release, April, 2013. The local survey is a part of an international survey, involving 53 Central Banks and Monetary Authorities, coordinated by BIS. The Italian survey was based on a sample of 32 domestic banks and 4 branches of foreign banks. These players hold a market share in foreign exchange and derivatives markets estimated at about 96%.

[6] However, it is worth to notice that the estimation is based on variables that are not perfectly homogeneous by composition and time horizon.

CHAPTER 6. ASSET MANAGEMENT

In this chapter the role of foreign players within the Italian Asset Management industry will be analyzed, referring both to collective and portfolio management and pension funds[1]. Information and data released by Assogestioni and available in the Italian Fund Hub (IFH) website are representative of the whole Italian Asset Management industry.

2014 has been a very positive year for Italian asset management market: the Assets Under Management (AUM) reached almost € 1,585 billion, a level never seen before, about more than one third of the total amount of financial assets held by families and about 85% of GDP. Total inflows amounted to € 133 billion.

6.1 Collective management and portfolio management: the foreign groups' market share

With regard to collective and portfolio management, data, updated at end-2014, refer to AUM, include 224 asset management companies and 74 groups.

Tab. 1 shows the amount of AUM referred to foreign and domestic banking/financial groups from 2008 to 2014. From 2008 to 2010, data show an increase in AUM, referred both to collective management and portfolio management. The market value of AUM increased from € 841.5 billion to € 1,007 billion, with a rise of about € 166 billion (+19.7%).

During last four years, with the exception of 2011, we have some evidence of the same trend. In particular, AUM at end-2013 rose to € 1,332 billion (+42% compared to end-2011 data and +12% on annual basis), AUM at end-2014 rose to € 1,584 billion (+18.9% compared to end-2013 data).

The market share held by foreign players, after a slight decline in 2012, has increased in 2013 until 21% and remained stable in 2014. Within the collective management segment, at the end of 2014 foreign players held about 30% of AUM. In 2014 the trend of AUM held by foreign companies has been slightly more dynamic than the whole

[1] The main sources of data are Assogestioni reports, in particular the "*Mappa del Risparmio Gestito*" [it], February 18, 2015, updated at end-2014.

market: in fact, the value of these portfolios has increased of about 21.2%, i.e. almost 3 percentage points more compared to AUM held by Italian companies.

In the last seven years, market shares held by foreign companies remained quite stable within the portfolio management scheme, while with respect to collective management their weight has increased from 18.9% at the end-2008 to 30.2% at the end-2014. Over the same period, the amount of AUM has more than doubled, from € 82 to 219,3 billion.

Tab. 1 – Collective and portfolio asset management: AUM trend and market shares held by Italian and foreign asset management companies (2008/14, € million and %) – Source: Own elaboration on Assogestioni data

	2008		2009		2010		2011	
	AUM	**%**	**AUM**	**%**	**AUM**	**%**	**AUM**	**%**
Collective management	**434,135**	**100**	**476,539**	**100**	**501,333**	**100**	**461,456**	**100**
Foreign groups	82,143	18.9	96,825	20.3	121,848	24.3	123,164	26.7
Italian groups	351,992	81.1	379,714	79.7	379,485	75.7	338,292	73.3
Portfolio management	**407,367**	**100**	**473,156**	**100**	**505,455**	**100**	**476,113**	**100**
Foreign groups	60,580	14.9	80,564	17.0	92,912	18.4	90,519	19.0
Italian groups	346,787	85.1	392,592	83.0	412,543	81.6	385,594	81.0
Total	**841,502**	**100**	**949,695**	**100**	**1,007,430**	**100**	**937,678**	**100**
Foreign groups	142,723	17.0	177,389	18.7	214,732	21.3	214,004	22.8
Italian groups	698,779	83.0	772,306	81.3	792,698	78.7	723,674	77.2

	2012		2013		2014		Δ2013/14	
	AUM	**%**	**AUM**	**%**	**AUM**	**%**	**ΔAUM**	**Δ%**
Collective management	**524,558**	**100**	**601,493**	**100**	**727,270**	**100**	**125,777**	**20.9**
Foreign groups	144,880	27.6	176,886	29.4	219,336	30.2	42,450	24.0
Italian groups	379,678	72.4	424,607	70.6	507,934	69.8	83,327	19.6
Portfolio management	**669,609**	**100**	**730,943**	**100**	**857,288**	**100**	**126,345**	**17.3**
Foreign groups	89,401	13.4	102,788	14.1	119,574	13.9	16,787	16.3
Italian groups	580,208	86.6	628,155	85.9	737,714	86.1	109,559	17.4
Total	**1,194,167**	**100**	**1,332,436**	**100**	**1,584,558**	**100**	**252,122**	**18.9**
Foreign groups	234,281	19.6	279,673	21.0	338,910	21.4	59,237	21.2
Italian groups	959,886	80.4	1,052,762	79.0	1,245,648	78.6	192,886	18.3

With regard to collective management, over the period 2008/14, the average market share held by foreign companies was 25%. After a sharp drop in 2008, with divestment strategies as a consequence of the financial crisis, starting from 2009 a raising trend has begun, so that the amount of AUM held by foreign companies end-2014 was higher than the amount at end-2007.

In the following part of this section, we are going to analyze some detailed data, referred – first of all – to collective management scheme (Tab. 2) and, secondly, to portfolio management segment (Tab. 3), over the period 2008/14.

With regard to collective management, AUM increased of about € 293 billion from 2008 to 2014. Furthermore, over the same time horizon, AUM held by foreign companies have significantly increased (+167%), rising from approximately € 82 billion in 2008 to € 219 billion. Within the collective management segment, open-end funds have the highest weight: at end-2014, foreign asset management companies held about 31% of the whole market. During 2014, foreign players' net raising was about € 7.8 billion, i.e. 40% of the whole net raising within collective management scheme (equal to € 19.7 billion).

Tab. 2 – Collective management: AUM stock and market shares held by Italian and foreign asset management companies (2008/14, € million and %) – Source: Own elaboration on Assogestioni data

Collective management	2008		2009		2010		2011	
	AUM	%	AUM	%	AUM	%	AUM	%
Open-end funds	**398,369**	**100**	**438,179**	**100**	**460,442**	**100**	**418,950**	**100**
Foreign groups	76,319	19.2	91,626	20.9	116,183	25.2	116,897	28.0
Italian groups	322,050	80.8	346,553	79.1	344,259	74.8	302,053	72.0
Closed-end funds	**35,766**	**100**	**38,359**	**100**	**40,891**	**100**	**42,506**	**100**
Foreign groups	5,824	16.3	5,199	13.6	5,665	13.9	6,267	14.8
Italian groups	29,942	83.7	33,160	86.4	35,226	86.1	36,239	85.2
End-year total	**434,135**		**476,538**		**501,333**		**461,456**	

Collective management	2012		2013		2014		Δ2013/14	
	AUM	%	AUM	%	AUM	%	ΔAUM	Δ%
Open-end funds	**481,552**	**100**	**558,293**	**100**	**683,714**	**100**	**125,421**	**22.5**
Foreign groups	138,693	28.8	170,705	30.6	212,205	31.0	41,500	24.3
Italian groups	342,859	71.2	387,589	69.4	471,509	69.0	83,921	21.7
Closed-end funds	**43,006**	**100**	**43,199**	**100**	**43,556**	**100**	**357**	**0.8**
Foreign groups	6,187	14.4	6,181	14.3	7,131	16.4	950	15.4
Italian groups	36,819	85.6	37,019	85.7	36,425	83.6	-594	-1.6
End-year total	**524,558**		**601,493**		**727,270**		**125,777**	**20.9**

Within the portfolio management scheme, it is possible to point out that AUM increased in the last three years of about 28%. Nevertheless, the market share of foreign groups has increased of approximately 34%, with different trends among investment products. During the last two years, the positioning of foreign companies has increased in retail securities asset management (+ € 2.5 billion in 2014, or about the 23% of the growth of the segment), pension plan asset management (+ € 4.8 billion, or about the 19% of the growth of the segment) and in insurance products and other investment products (respectively + € 9 billion and + € 0.82, +15% and +10%). However, during the same period, the market share of foreign groups in retail asset management in funds has decreased (– € 0.3 billion between end-2013 and end-2014, or –28.8%).

Within portfolio management scheme, in 2014 foreign companies' net raising was positive (+ € 3.6 million). However, flows have been different in each investment product. In particular, net raising has been positive in retail securities asset management, in pension plan asset management, in insurance products and in other investment products. On the other hand, foreign players suffered a negative net raising with reference to retail asset management in funds.

Tab. 3 – Portfolio management: breakdown of AUM stock by investment products and market shares held by Italian and foreign asset management companies (2008/14, end-year data, € million and %) – Source: Own elaboration on Assogestioni data

Portfolio management	2008		2009		2010		2011	
	AUM	%	AUM	%	AUM	%	AUM	%
Retail asset mngt. in funds	**36,532**	**100**	**33,568**	**100**	**35,901**	**100**	**28,798**	**100**
Foreign groups	1,615	4.4	1,549	4.6	1,291	3.6	1,107	3.8
Italian groups	34,917	95.6	32,019	95.4	34,610	96.4	27,691	96.2
Retail securities asset mngt.	**72,249**	**100**	**78,129**	**100**	**85,313**	**100**	**71,601**	**100**
Foreign groups	6,428	8.9	11,066	14.2	8,958	10.5	8,034	11.2
Italian groups	65,821	91.1	67,063	85.8	76,355	89.5	63,567	88.8
Pension plan asset mngt.	**26,426**	**100**	**30,013**	**100**	**32,853**	**100**	**38,297**	**100**
Foreign groups	7,286	27.6	8,208	27.3	10,722	32.6	13,174	34.4
Italian groups	19,140	72.4	21,805	72.7	22,131	67.4	25,123	65.6
Insurance products	**202,036**	**100**	**258,618**	**100**	**281,628**	**100**	**267,762**	**100**
Foreign groups	37,050	18.3	55,919	21.6	64,051	22.7	60,972	22.8
Italian groups	164,986	81.7	202,699	78.4	217,577	77.3	206,790	77.2
Other investment products	**70,123**	**100**	**72,858**	**100**	**69,759**	**100**	**69,651**	**100**
Foreign groups	8,201	11.7	9,309	12.8	7,890	11.3	7,231	10.4
Italian groups	61,922	88.3	63,549	87.2	61,869	88.7	62,420	89.6
End-year total	**407,366**		**473,186**		**505,454**		**476,109**	

Portfolio management	2012		2013		2014		Δ2013/14	
	AUM	%	AUM	%	AUM	%	ΔAUM	Δ%
Retail asset mngt. in funds	**24,160**	**100**	**23,156**	**100**	**28,008**	**100**	**4,852**	**21.0**
Foreign groups	996	4.1	1,042	4.5	742	2.6	-300	-28.8
Italian groups	23,164	95.9	22,114	95.5	27,266	97.4	5,152	23.3
Retail securities asset mngt.	**68,654**	**100**	**75,116**	**100**	**85,614**	**100**	**10,498**	**14.0**
Foreign groups	8,713	12.7	10,570	14.1	13,033	15.2	2,463	23.3
Italian groups	59,941	87.3	64,545	85.9	72,581	84.8	8,036	12.4
Pension plan asset mngt.	**48,646**	**100**	**62,547**	**100**	**75,107**	**100**	**12,560**	**20.1**
Foreign groups	16,203	33.3	25,085	40.1	29,925	39.8	4,840	19.3
Italian groups	32,443	66.7	37,462	59.9	45,182	60.2	7,720	20.6
Insurance products	**466,184**	**100**	**499,058**	**100**	**590,955**	**100**	**91,897**	**18.4**
Foreign groups	56,348	12.1	58,161	11.7	67,129	11.4	8,968	15.4
Italian groups	409,836	87.9	440,897	88.3	523,826	88.6	82,929	18.8
Other investment products	**61,966**	**100**	**71,067**	**100**	**77,604**	**100**	**6,537**	**9.2**
Foreign groups	7,141	11.5	7,930	11.2	8,745	11.3	815	10.3
Italian groups	54,825	88.5	63,137	88.8	68,859	88.7	5,722	9.1
End-year total	**669,610**		**730,943**		**857,288**		**126,345**	**17.3**

6.2 The concentration in the Italian Asset Management market

The Italian asset management market is quite concentrated, with regards to the ranking in the league table of banking/financial groups by AUM (Tab. 4). The top 3 groups are Italian companies. At the end of 2014, their market share was about 50% of AUM referred to collective and portfolio management schemes. Compared to end-2013 data, this concentration index decreased of about 3 percentage points.

As shown in Tab. 4, there are two foreign companies within the "top ten" ranking (at end-2013 there were three foreign groups), whose market share is about 4.8% (7.1% at end-2013). They manage 320 funds, i.e. 7.4% of the total number of funds shown in Assogestioni statistics (at end-2013 the three "top ten" foreign groups managed 210 funds, corresponding to approximately 5% of the total number of funds).

If we exclude the four foreign players placed in "top 15", the remaining 22 foreign groups surveyed by Assogestioni statistics are below the 15th position: they hold a market share equal to 13 % of AUM (about € 206 billion) and to 41% of the total number of managed funds (1,784).

Tab. 4 – League table of Italian and foreign banking/financial groups by AUM (collective and portfolio management, end-2014, € million and %) – Source: Own elaboration on Assogestioni data

#	Banking/Financial groups	AUM	%	Number of funds	%
1	Gruppo Generali	419,721	26.5	164	3.8
2	Eurizon Capital	239,602	15.1	362	8.4
3	Pioneer Investment-Gr. Unicredit	127,753	8.1	264	6.1
4	Banca Fideuram	64,915	4.1	144	3.3
5	Poste Italiane	59,071	3.7	21	0.5
6	Anima Holding	56,566	3.6	181	4.2
7	Allianz	44,691	2.8	51	1.2
8	Gruppo Ubi Banca	38,407	2.4	63	1.5
9	Gruppo Mediolanum	38,319	2.4	72	1.7
10	Amundi Group	31,328	2.0	269	6.2
11	Gruppo Banco Popolare	30,825	1.9	50	1.2
12	Gruppo Azimut	29,325	1.9	105	2.4
13	Gruppo BNP Paribas	28,525	1.8	278	6.4
14	Axa	28,448	1.8	74	1.7
15	Arca	28,134	1.8	49	1.1
	Other Italian banking/financial groups	*113,010*	*7.1*	*393*	*9*
	Other foreign banking/financial groups	*205,918*	*13.0*	*1,784*	*41*
	Total	**1,584,558**	**100**	**4,324**	**100**
	Top ten	**1,120,373**	**70.7**	**1,591**	**36.8**
	Italian banking/financial groups	1,044,354	65.9	1,271	29.4
	Foreign banking/financial groups	76,019	4.8	320	7.4

6.3 The role of foreign intermediaries in Italian Pension funds market

Over the period 2008/14, the growth of the Italian pension funds market – both open pension funds and contractual pension funds – was remarkable. AUM more than doubled, from € 14.8 to 45.7 billion.

This growth has mainly been exogenous. In effect, this positive path is a consequence of the fact that pension funds are more and more widespread as financial asset class in which Italian workers and families want to invest in. As shown in Tab. 5, AUM held by foreign companies has increased from € 3.5 (end-2008) to € 17.6 billion (end-2014). Market share has also increased over the same period: at the end of 2014 it was about 38%, one percentage point more than the previous year.

Tab. 5 – Italian pension funds market: AUM trend and market shares held by Italian and foreign asset management companies (2008/14, end-year data, € million and %) – Source: Own elaboration on Assogestioni data

	2008		2009		2010		2011	
	AUM	%	AUM	%	AUM	%	AUM	%
Open pension funds	**4,856**	**100**	**5,629**	**100**	**6,468**	**100**	**8,184**	**100**
Foreign groups	342	7.0	516	9.2	767	11.9	887	10.8
Italian groups	4,514	93.0	5,112	90.8	5,702	88.1	7,297	89.2
Contractual pension funds	**9,987**	**100**	**12,809**	**100**	**14,349**	**100**	**16,473**	**100**
Foreign groups	3,196	32.0	4,928	38.5	5,699	39.7	6,756	41.0
Italian groups	6,791	68.0	7,881	61.5	8,650	60.3	9,717	59.0
End-year total AUM	**14,844**		**18,438**		**20,817**		**24,657**	

	2012		2013		2014		Δ2013/14	
	AUM	%	AUM	%	AUM	%	ΔAUM	Δ%
Open pension funds	**9,672**	**100**	**12,205**	**100**	**14,873**	**100**	**2,668**	**21.9**
Foreign groups	1,135	11.7	1,349	11.1	1,609	10.8	260	19.3
Italian groups	8,537	88.3	10,856	88.9	13,264	89.2	2,408	22.2
Contractual pension funds	**21,412**	**100**	**25,618**	**100**	**30,837**	**100**	**5,218**	**20.4**
Foreign groups	10,149	47.4	12,515	48.9	15,954	51.7	3,438	27.5
Italian groups	11,263	52.6	13,103	51.1	14,883	48.3	1,780	13.6
End-year total AUM	**31,084**		**37,824**		**45,710**		**7,886**	**20.8**

Foreign groups' market share is more significant within the contractual pension funds segment, where it represents about the half of the market size (51.7% at end-2014). However, also the contractual pension funds segment has grown over the period, although at a slower pace.

With regard to open pension funds only, according to MEFOP Report[2], it is possible to point out the presence of 10 foreign asset management groups. At the end of 2014, they managed 18 funds, about 234,504 members (18% of the total) and a total amount of net assets equal to about € 3 billion (22.7% of the total).

[2] MEFOP, "*Bollettino Statistico*" [it], No. 55, December, 2014. MEFOP SpA, created in 1999, is a company participated by the Ministry of Economy and Finance (MEF) with the goal to promote the development of the Italian pension funds market.

CHAPTER 7. ASSETS AND LIABILITIES OF FOREIGN BANKS IN ITALY

7.1 The trend of the main items in foreign banks' financial statements in 2014[1]

According to Bank of Italy's analysis[2], the favourable cyclical signs of economic recovery have strengthened in Italy in recent months, but non yet consolidated. Credit conditions continue to show signs of improvement. The terms of lending to firms have improved further but are still differentiated according to the size and economic sector of the borrower. Average lending rates have come down but remain higher than the corresponding Euroarea rates. However, the contraction in lending to firms has continued, while lending to households remained stable.

Italy's exit from the long recession requires strong measures on both the demand side and the supply side. The process of structural changes must continue, within the legislative and operating framework, to support Italian firms and retail customers.

7.1.1 Assets: Loans to customers

During 2014, loans granted by foreign banks in Italy have remained largely unchanged: the slight decline registered by the branches of foreign banks was offset by the increase recorded by the Italian subsidiaries of foreign groups. This invariance is also reflected on the market share, also remained substantially equal to the levels of 2013 (approximately 14%)[3].

In particular, a leading presence is shown in the household sector (just over 20%) and business (about 11%), while Public Administration's role as a borrower continues to be limited. In terms of composition, the subsidiaries continue to represent the majority (about 60%).

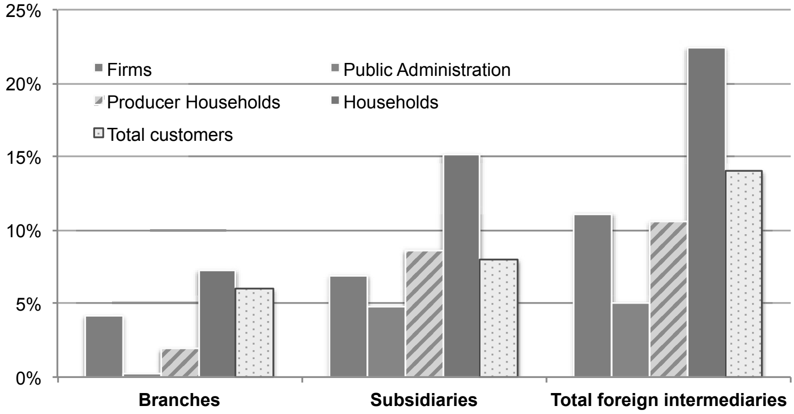
---

[1] Section 7.1 (parr. 7.1.1 to 7.1.5) was written by Emanuela Atripaldi and Michela Valsecchi, Division of Banking Supervision, Bank of Italy, Milan offices. The views expressed are those of the Authors and do not necessarily reflect those of Bank of Italy.

[2] See Bank of Italy, "*Economic Bulletin*" No. 2, April, 2015.

[3] It is worthy to notice that, as in previous years, data reported from foreign banks may underestimate the whole operating, due to the fact that some foreign intermediaries account these assets on parent company's books or or other group entities' books.

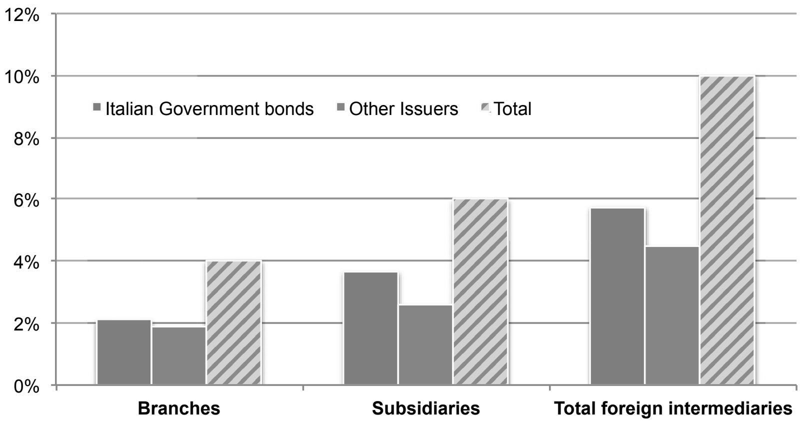
Fig. 1 – Market share held by foreign banks in loans to customers by counterparty's sector (2014, %) – Source: Bank of Italy, Supervisory Statistics



7.1.2 Assets: Securities

At the end of 2014, the composition of securities held by foreign banks in Italy were largely unchanged compared to 2013 (Fig. 2).

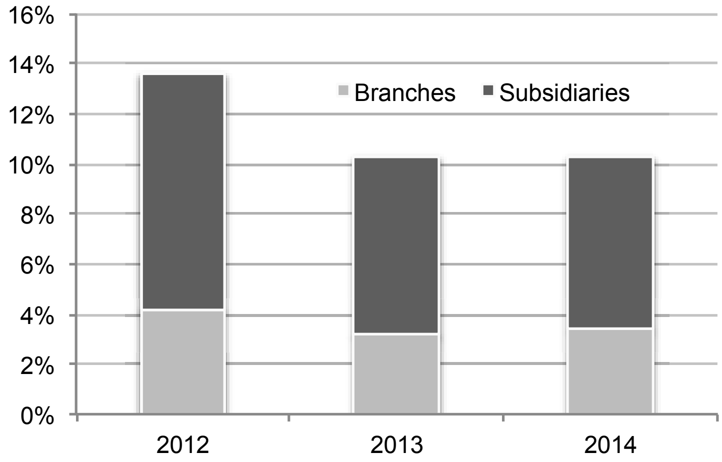
Fig. 2 – Securities: market share held by foreign banks by counterparty's sector (2014, %) – Source: Bank of Italy, Supervisory Statistics



7.1.3 Liabilities: Deposits from customers

At the end of 2014, the foreign banks' market share for deposits from customers was stable compared to the previous year (10.3%) and was still mainly held by foreign subsidiaries (6.9%). In absolute term, the amount of deposits recorded a positive trend (+6%), even if differently for branches (+13.5%) and subsidiaries (+2.7%).

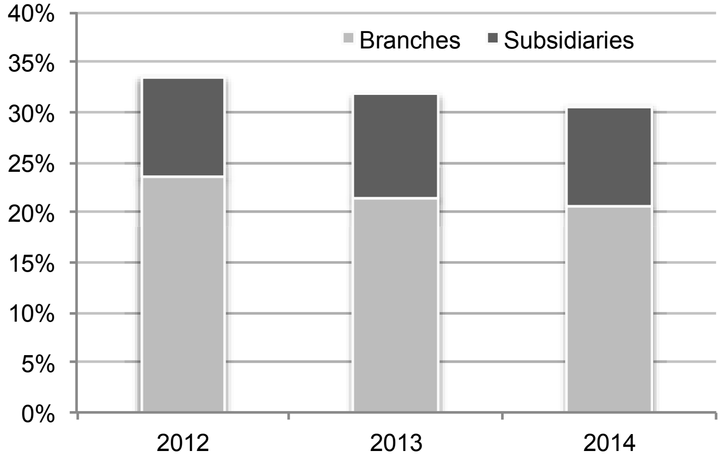
Fig. 3 – Foreign banks' market share for deposits from customers (2012/14, %) – Source: Bank of Italy, Supervisory Statistics



7.1.4 Liabilities: Deposits from banks

In 2014, foreign banks continued decreasing their market share for interbank deposits (30.6% from 31.8% of 2013 and 33.5% of 2012), although the amount of deposits from banks remained stable in absolute term. For the entire banking system, interbank deposits recorded an increase (+4%), that compensated the reduction of the financing from Central Banks (–18.6%).

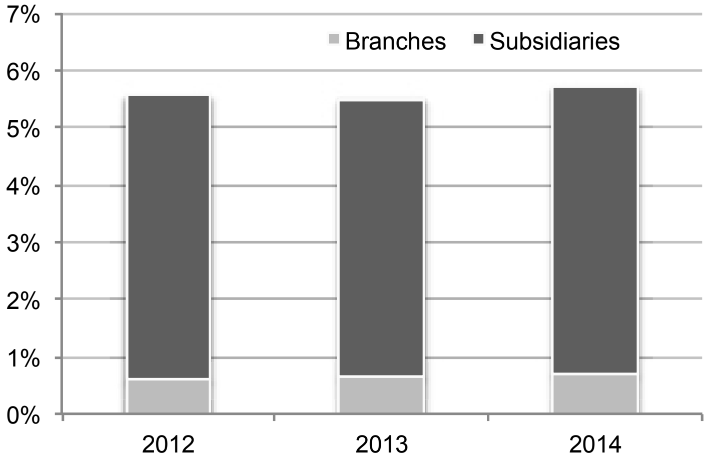
Fig. 4 – Foreign banks' market share for deposits from banks (2012/14, %) – Source: Bank of Italy, Supervisory Statistics



7.1.5 Liabilities: Securities in issue

At the end of 2014, the foreign bank' market share for securities in issue slightly increased compared to the previous year (5.7% from 5.5%) and was still mainly held by foreign subsidiaries (5%). As in the previous two years, in absolute term, the amount of securities issued decreased (–7.2%), despite less than the whole market (–11%).

Fig. 5 – Foreign banks' market share for securities in issue (2012/14, %) – Source: Bank of Italy, Supervisory Statistics



7.2 Credit exposure towards Italy: some evidences from a sample of foreign banks operating in Italy

In previous chapters we already mentioned the come back of foreign investors, towards both Italian securities and Italian companies (M&A deals and equity investments).

According to Bank of Italy's statistics, in 2014 net foreign portfolio investment in Italian securities amounted to € 97.7 billion, of which € 58.8 billion related to public debt securities, for the most part medium- and long-term. Foreign purchases of Italian government securities resulted strong also in January and February 2015 (€ 26.4 billion). In this last period, moreover, also resident banks improved net foreign funding[4].

According to previous AIBE Reports, we monitored a sample of the major foreign banks operating in Italy, with regards to their overall exposure to Italian economic system[5].

In broad terms, surveyed banks confirmed a sluggish economic and credit environment. The liquidity and solvency positions were monitored, in connection with the introduction of new regulatory ratios, as well as risk changes in all areas (credit, counterparty, sovereign, markets, and so on). A prudent management is in place.

Some remarks breakdown by each financial group included in our survey.

BNP Paribas reports that banking and trading books sovereign exposures towards Italy increased from € 17.3 to € 18.9 billion, mainly explained by the increase in sovereign counterparty risk, more than doubled in 2014 (€ 7.1 billion). Italy counts for about 19% of the sovereign risk exposure in banking book within Eurozone countries.

On the other hand, referring to credit risk exposure, Italy represented 11% of the Group's overall credit risk exposure. The amount, equal to € 137.9 billion, remained almost stable in 2014. Some changes in components are evident: in particular, exposure towards Italian corporates decreased of about 4% (€ 61 billion), while that towards institutions increased from € 9.3 to € 11 billion.

Crédit Agricole Group increased sovereign risk exposure from € 4.9 to € 6.2 billion (banking book). Italy represented 11% of the total

---

[4] See Bank of Italy, "*Economic Bulletin*" No. 2, April, 2015.

[5] The sample is composed by BNP Paribas, Crédit Agricole, Credit Suisse, Deutsche Bank, Santander, and Société Générale. The analysis has been carried out on the latest consolidated annual reports and financial statements (year 2014).

commercial lending activities of the Group, confirming the data referred to 2013 and the position as the Group's second biggest market.

Credit Suisse's credit exposure towards Italy remained quite stable, at about € 1.8 billion, of which 22% towards sovereign counterparties.

Deutsche Bank's data[6] highlight the positioning of Italy compared to other PIIGS countries (namely, Portugal, Ireland, Greece, and Spain). Net credit risk exposure towards PIIGS countries went down of about € 1.7 billion, to € 26.9 billion ("Risk Management view"), of which € 15.4 billion towards Italy. The analysis by "Country of domicile view" shows a slight decrease in credit risk exposure towards Italy (€ 17.6 billion, or–2.2% YoY). Italy represents about 45% of Group's overall credit risk exposure towards PIIGS country, a level similar to that of 2013. The breakdown by counterparties shows some differences in annual changes. A sharp reduction in sovereign exposure and towards Italian corporates has been partially offset by higher exposure to Italian financial institutions.

Société Générale reported an amount of exposure at default (EAD) towards Italy increased of about € 2.3 billion YoY. The amount at the end of 2014 stood at € 17.6 billion. The weight of sovereign exposure (€ 2.9 billion) decreased from 18.5% to 16.8%. Exposure towards counterparties as retail customers, corporates and institutions has increased (+ € 2.2 billion). Italy represented 2.4% of the Groups' worldwide EAD, 1.9% of the total sovereign exposure, which increases till 3.2% if we refer only to European countries.

Santander's exposure to Italian sovereign risk (€ 1.7 billion), finally, is quite modest compared to the overall sovereign exposure on a worldwide basis (about 1.4%). The sovereign exposure is pretty domestic: the exposure towards Spanish public debt increased of about € 6.4 billion during 2014, to € 44.8 billion, representing almost 37% of the worldwide exposure towards sovereign counterparties.

Direct exposure towards non-sovereign Italian counterparties increased from € 7.2 to € 8.4 billion.

---

[6] Figures are exposed using both the so-called "Risk Management view", in which Deutsche Bank considers the domicile of the group parent, thereby reflecting the one obligor principle, and the so-called "Country of domicile view", in which credit risk exposures are aggregated and allocated to counterparties on the basis of the domicile of the primary counterparty, irrespective of any link to other counterparties. Deutsche Bank, "*Financial Report 2014*", p. 101.

7.3 Deposits and loans in the Italian Retail banking market

According to AIBE Yearbook 2014/15, AIBE's members operating in the Retail segment are 11, with a negative changes of 3 compared to end-2013 issue. The majority of them, besides Retail banking, offer financial products and services within Corporate & Investment Banking and Wealth & Asset Management segments. 6 out of 11 AIBE's members are offering deposits and payment services through the traditional bank and, jointly, through internet banking. Other 5 banks, on the contrary, offer financial products and services through the traditional channel (branch networks, financial shops and network of financial advisors).

The supply of financial products and service refers to full operating checking accounts, payment services (credit and debit cards), and retail financing products, such as mortgage loans and consumer credit. The number of foreign banks active in retail segment increased in recent time. Entry strategies were differentiated: organizational solutions are different and, in many cases, complementary and fully integrated.

Tab. 1 highlights some balance sheet data and operating information referred to a sample of main foreign banks active in the Italian Retail banking market. Even if data are not complete, some remarks are pointed out. At the end of 2014, foreign branches and subsidiaries of the five banking groups analyzed in our sample pointed out total assets for about € 170 billion worth. About two-thirds of theme refer to loans to customers and, in particular, retail mortgages (€ 68 billion). Customers deposits are estimated at about € 74 billion.

Foreign players continued to innovate and to invest into Italian Retail banking market. A number of projects have been launched to support innovation in the service model, customers' multi-channel access and in risk management and process efficiency. Some banks launched a "new concept" of branch network, with new layouts and new spaces, to welcome and assist customers. Despite, in 2014, the Italian economy resulted weaker than expected, foreign banks continued to support both households and SMEs. Residential mortgages increased and some projects related to favor SMEs' access to credit had seen the takeoff, in the form of partnerships with credit guarantee consortia.

The fall in economic margins, due to interest market rates, is also forcing banks to diversify the sources of profit. For the next future, a greater attention will be on payment systems, asset management (pension funds), minibond issuances, and securitization.

Tab. 1 – Some data about most relevant foreign banks operating in Italian retail banking – Source: Annual and Consolidated reports at December, 2014; press release and information available on financial intermediaries' web sites

Foreign branch/ Subsidiary	Main activities and business segments in Italy (retail market)	Presence mode in Italy	Main financial information (monetary values in € bn.) and operating structure					
			Total assets	Loans to customers	Customer deposits	Number of customers	Number of employees	Branch networks and distribution channels
Barclays	checking accounts, credit and debit cards, mortgages and personal loans, insurance products	N/A	N/A	N/A	N/A	more than 800,000 (*2011*)	more than 1,000 (*2013*)	about 110 branch networks, financial stores branded "Barclays Mutui e Prestiti" [Barclays Mortgages and Loans], 250 Relationship Manager, financial advisors, and 3 Flagship Premier (Milan, Brescia and Rome)
BNP Paribas (BNL SpA) (*)	commercial banking	branch networks	74.7	61.1 bn., o/w 37.8 as retail mortgages	37.1	about 2.5 mln. (private customers, BNL Group)	11,391 (BNL SpA)	about 1,000 branch networks
Deutsche Bank (*)	customer deposits, credit and debit cards, lending, real estate lending, asset management	branch networks (also specialized in retail credit) and financial advisors	24.1	17.8 bn., o/w 8.5 bn. as retail mortgages	11.4	N/A	3,368	364 branch networks, 1,550 financial advisors and financial shops for consumer credit
Gruppo Cariparma Crédit Agricole (**)	commercial banking, bancassurance (life insurance), leasing	branch networks	48.7 (net assets)	37.3, o/w which 21.2 bn. as retail mortgages	25.1	1.7 mln.	8,424 (end-2014)	842 branch networks
ING Direct	customer deposits, residential mortgages, personal lending, online trading, insurance	online banking, financial agents, branch networks	23	N/A	N/A	more than 1 mln.	about 700	13 branch networks, online banking, and "Punto Arancio" financial shops

Note: (*) Annual report 2014; (**) Consolidated report 2014.

7.4 Specialized lending

7.4.1 Consumer credit

In last two years (2013/2014) the Italian consumer credit market has increased. According to Assofin data, the increase in financial flows has been equal to € 1.2 billion on annual basis. From 2008 to 2013, market went down of about € 15 billion because the market was heavily dominated by the uncertainty related to economic recovery and the decrease in household income. The aforesaid increase shows a slight improvement of the market condition.

Foreign intermediaries account for about half of the players surveyed by Assofin. The figure is substantially stable over the period 2009/14.

The market share held by foreign players remained slightly above 50% until 2011, and then begin to decline in the last three years, up to 46.6% in 2014. Despite the reduction in market share, the value of consumer credit granted by foreign players, in 2014, was about € 21.7 billion, with a slight increase compared to 2013 (about € 500 million).

Then, they had an increase less intense than the dynamics of credits granted by Italian players, but also than the general trend of Italian consumer credit market, whose expansion amounted to 3.6% of annual credits granted.

Tab. 2 – Number of players and cumulative flows in Italian consumer credit market by geographical origin of financial intermediaries (2009/14, € billion and %) – Source: Own elaboration on Assofin data

Number of intermediaries by origin	2009		2010		2011		2012		2013		2014	
	No. of interm. (*)	%	No. of interm. (*)	%	No. of interm. (*)	%	No. of interm. (*)	%	No. of interm. (*)	%	No. of interm. (*)	%
Italian intermediaries	19	48.7	20	48.8	20	51.3	20	51.3	19	52.8	18	50.0
Foreign intermediaries	20	51.3	21	51.2	19	48.7	19	48.7	17	47.2	18	50.0
of which: foreign banks	*6*	*15.4*	*6*	*14.6*	*6*	*15.4*	*6*	*15.4*	*7*	*19.4*	*7*	*19.4*
Total	**39**	**100**	**41**	**100**	**39**	**100**	**39**	**100**	**36**	**100**	**36**	**100**

Cumulative annual flows	2009		2010		2011		2012		2013		2014	
	Value (*)	%	Value (*)	%	Value (*)	%	Value (*)	%	Value (*)	%	Value (*)	%
Italian intermediaries	27.1	48.8	24.6	47.0	25.1	48.5	24.3	50.6	24.2	53.3	24.9	53.4
Foreign intermediaries	28.3	51.2	27.8	53.0	26.7	51.5	23.7	49.4	21.2	46.7	21.7	46.6
of which: foreign banks	*4.5*	*8.2*	*4.0*	*7.6*	*4.5*	*8.6*	*4.0*	*8.4*	*4.2*	*9.3*	*4.1*	*8.9*
Total	**55.4**	**100**	**52.4**	**100**	**51.7**	**100**	**48.1**	**100**	**45.4**	**100**	**46.6**	**100**

Note: (*) Italian intermediaries: companies with a prevalence of domestic shareholders; Foreign intermediaries: companies with a prevalence of foreign ownership. In the case of joint shareholders, flows have been allocated pro rata (stakes held by Italian and foreign shareholders).

Within the cluster composed by foreign players, foreign banks included in Assofin statistics are 7; they granted about € 4.1 billion, equal to 19% of lending granted by foreign intermediaries, about one percentage point less than 2013. The market share held by foreign banks has gradually increased from 2009 to 2014 of 0.7 percentage points, even in a context in which annual flows decreased.

According to Assofin-CRIF-Prometeia's estimates, a recovery of the Italian consumer credit market is expected in the next two years, even if growth rhythms will remain moderate.

The uncertainty on the future and the slow improvement in the economic cycle still suggest caution to households in decisions of borrowing. On the other hand, offering policies – aimed, in broad terms, to increase the quality of credits granted – are very differentiated. However, they are gradually becoming more favorable because of the better economic conditions, of the transparency in banks' balance sheets, and of the fall in interest rates. 2015 is expected to be a quite prudent year.

7.4.2 Leasing

This section is aimed to provide an update of data referred to Italian leasing market and the positioning of foreign intermediaries in this segment. The analysis has been based on data released by Assilea, the Italian Association of leasing companies, and referred to credits' stock (outstanding amount at end-year date) and leasing companies' market shares at the end of 2014.

The number of foreign leasing companies included in Assilea statistics remained unchanged (26) between 2013 and 2014. In 2014 the market share held by foreign players has increased compared to the previous year, and amounting to 45% of the total. The amount of leasing granted by foreign intermediaries was about € 7 billion, of which about € 5.5 billion (79.3%) referred to foreign banks, and just over € 1.4 billion referred to specialized leasing companies.

According to the Assilea's league table 2014 by total value of leasing contracts, 5 foreign leasing companies are included in "top ten". They concentrate a total annual value of leasing contracts equal to about € 4.4 billion (42.8% of the "top ten" amount and 27.9% of the total market value). The market share held by foreign leasing companies rises to

36.9% of the total market value including also other 5 foreign companies that are present in the "top 20" league table.

Tab. 3 – Italian leasing market: distribution of the value of leasing contracts by geographical origin of intermediaries (2007/14, € billion and %) – Source: Own elaboration on Assilea data

	2007		**2008**		**2009**		**2010**	
	Value	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**
Italian intermediaries	38.1	78.3	28.1	72.8	19.0	73.2	20.3	74.8
Foreign intermediaries	10.6	21.7	10.5	27.2	6.9	26.8	6.9	25.2
of which: foreign banks	*8.0*	*16.4*	*8.2*	*21.1*	*5.8*	*22.2*	*5.6*	*20.7*
Total	**48.7**	**100**	**38.7**	**100**	**25.9**	**100**	**27.2**	**100**

	2011		**2012**		**2013**		**2014**	
	Value	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**
Italian intermediaries	17.1	69.3	10.2	61.0	10.0	60.6	8.5	54.9
Foreign intermediaries	7.6	30.7	6.5	39.0	6.5	39.4	7.0	45.1
of which: foreign banks	*6.1*	*24.7*	*5.2*	*31.2*	*5.1*	*30.8*	*5.5*	*35.7*
Total	**24.6**	**100**	**16.7**	**100**	**16.5**	**100**	**15.5**	**100**

As known, in 2014 European economies were still uncertain and recovery phase was particularly slow. However, thanks to tax changes introduced in "Stability Law 2014" and a further incentive measure, so-called "New Sabatini", volumes of leasing contracts increased in all traditional sectors (car, equipment and real estate). As a matter of fact, during 2014 the number of lease contracts signed increased to about 317,070. The worth is about € 15.5 billion.

The recovery was concentrated especially on car leasing and equipment leasing (which respectively represented about a half of the new lease contracts and about one third in values). These measures are expected to trigger a virtuous circle. In particular, with regards to new lease contracts signed from January, 1st, 2014, the "Stability Law 2014" introduced a more favorable tax regime, based on early amortization of investments.

The "Stability Law 2015" refinanced the incentive measures introduced within the "New Sabatini" for about € 5 billion, with the aim to favor investments, in the form both of tax relief and simplification rules in supporting leasing and other forms of credit and finance, which are very close to real economy and Italian firms.

7.4.3 Factoring

This section contains the update of data related to Italian factoring market, according to Assifact (Italian Association for factoring) statistics. Data are highly representative of the whole market, due to the fact that almost all players operating in Italian factoring market are Assifact's members.

Assifact's statistics, updated at end-2014, point out outstanding credits and annual turnover flows. In last three years the number of Assifact's members remained stable, whereas the number of foreign factoring companies decreased (6 out of 33 at the end of 2014).

Tab. 4 – Italian factoring market: presence of foreign factoring companies and annual turnover's breakdown by geographical origin of intermediaries (2008/14, € billion and %) – Source: Own elaboration on Assifact data

	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Assifact's members							
Italian members	27	25	27	28	26	24	27
Foreign members	8	9	8	8	8	8	6
Total	**35**	**34**	**35**	**36**	**34**	**32**	**33**
Annual Turnover							
Italian Assifact's members	91.5	87.9	105.4	132.5	138.4	136.0	141.5
Foreign Assifact's members	30.1	29.3	31.4	36.4	36.9	35.6	36.0
market share (%)	*24.8*	*25.0*	*23.0*	*21.6*	*21.0*	*20.8*	*20.3*
Total annual Turnover	**121.6**	**117.2**	**136.8**	**168.9**	**175.3**	**171.6**	**177.5**

In 2014 turnover was about € 178 billion, with an increase of 3.5% on annual basis, of which € 36 billion referred to foreign players. The market share held by foreign intermediaries remained quite stable (20.3%), but the trend in last years should point out a downward trend, as the peak was reached in 2009.

According to Assifact's league table by turnover and by factoring companies, the Italian market is quite concentrated. The market share held by first three factoring companies is equal to 61.5%. The first foreign player is ranked in the third place (13.9% of the total market turnover and more than 70% of the overall share referred to sub-sample composed of foreign factoring companies).

We also analyzed the outstanding amount of credits. In last three years (2012/14), the amount of outstanding credit has significantly increased compared to 2009. In particular, the value grew up from € 32.5 billion (end-2009) to € 55.8 billion (end-2014).

Tab. 5 – Italian factoring market: trend in outstanding credit by geographical origin of intermediaries (2008/14, end-year data, € billion and %) – Source: Own elaboration on Assifact data

	2008	2009	2010	2011	2012	2013	2014
Number of respondents							
Italian intermediaries	26	24	24	26	24	23	25
Foreign intermediaries	8	9	8	9	7	7	6
Total	**34**	**33**	**32**	**35**	**31**	**30**	**31**
Outstanding Credit							
Italian intermediaries	77.7	25.4	37.3	41.7	45.6	44.1	45.0
Foreign intermediaries	7.8	7.1	13.5	15.5	11.9	10.7	10.8
market share (%)	*9.1*	*21.8*	*26.6*	*27.1*	*20.7*	*19.6*	*19.4*
Total annual Turnover	**85.5**	**32.5**	**50.8**	**57.2**	**57.5**	**54.8**	**55.8**

At the end of 2014, with regards to outstanding credit, the value referred to foreign intermediaries was about € 10.8 billion. On annual basis, the positive change (€ 0.1 billion) led to a percentage growth lower than the whole market (0.8% *versus* 1.9%). At the end of 2014, first three players hold about 60% of the whole amount of outstanding credit. The first foreign player is ranked in third position (13%).

In recent years factoring has established itself as an important form of financing for corporations and support to the real economy.

In particular, during the last year, factoring contributed to several initiatives serving companies and granting them an easier access to credit. In particular, as recently stated by the President of Assifact, the factoring sector has cooperated very effectively with the Ministry of Economy and Finance (MEF), in order to define a new "Electronic Platform for Receivables Certification", enabling creditors towards Public Administration to request the certification of receivables for amounts due for administration, provision and tender contracts. This will also track any subsequent operations of advance payment, compensation, sale or payment, for certified receivables. In a majority of cases, Assifact has proposed rules to simplify the assignment of future receivables. According to Assifact, in fact the support of the factoring to the Italian economy requires an appropriate regulatory framework, consistent with companies' financial needs. The aim is to give greater protection to the companies and to make transactions faster and more secure.

The above stated, according to more recent Assifact's estimates, it is possible to point out an increase in factoring industry. In fact, expectations for market trend in 2015 are quite positive, with an estimated rate of growth of about 4-5% on annual basis.

BIBLIOGRAPHY

ABI, "*Annuario delle Banche e Società Finanziarie*" [it], various years

AIBE, "*Annuario delle banche estere in Italia*" [it], various years

AIBE, "*Venticinque anni di banche e operatori esteri in Italia. Il contributo al sistema economico e finanziario del Paese*" [it], FrancoAngeli, Milan, 2010

AIBE, "*Banche ed operatori esteri in Italia*", various years

AIBE, "*AIBE Index. Osservatorio sull'attrattività dell'Italia presso gli investitori esteri*" [it], 2014 and 2015

AIFI, "*Il mercato italiano del Private Equity e Venture Capital nel 2014*" [it], Survey AIFI-PricewaterhouseCoopers, 2015

Assilea, "*Rapporto sul leasing anno 2014*" [it], 2015

Assogestioni, "*Mappa del risparmio gestito – IV trimestre 2014*" [it], February, 18th, 2015

Assosim, "*Relazione annuale del Presidente all'Assemblea degli Associati. Esercizio 2011*" [it], Milan, March, 29th, 2012

Assosim, "*Rapporto periodico anno 2014 sui dati di negoziazione degli associati Assosim*" [it], 2015

A.T. Kearney, "*The A.T. Kearney Foreign Direct Investment Confidence Index. Ready for Takeoff*", 2014

A.T. Kearney, "*The A.T. Kearney Foreign Direct Investment Confidence Index. Connected Risks: Investing in a Divergent World*", 2015

Bank for International Settlements, "*Statistical Annex*", in *BIS Quarterly Review*, various years

Bank of Italy, "*Annual Report*" and "*Statistical Appendix*", Rome, May, various years

Bank of Italy, "*Il turnover dei mercati dei cambi e derivati in Italia*" [it], press release, various years

Bank of Italy, "*Italy – External debt*", statistics available at the web page www.bancaditalia.it

Bank of Italy, "*Financial Stability Report*" [it], various years

Bank of Italy, "*Rilevazione sui prodotti derivati over-the-counter*" [it], press release, various years

Bank of Italy, "*Economic Bulletin*", No. 2, April, 2015

Bank of Italy, “*Annual Report*”, various years

Biraghi G., De Sanctis A., and Ballarini L., “*#Expottimisti*”, Secolo Urbano, 2014, www.expottimisti.it

Borroni M., “*L’internazionalizzazione in entrata nel sistema bancario italiano*” [it], in Oriani M. (ed.), “*Banche e internazionalizzazione – Strategie e casi di successo*” [it], Bancaria Editrice, Rome, 2006

Bricco P. “*Internationalization gains momentum, more Italian companies go abroad*”, Italy24, Il Sole 24 Ore, May, 18th, 2015

Bufacchi I., “*Se gli italiani comprano, gli stranieri sono traqnquilli*” [it], Il Sole 24 Ore, April, 13th, 2015

Cappellini, “*Foreign capital eyes Italy, as it rises in A.T. Kearney’s ranking of most appealing countries for investors*”, Italy24, Il Sole 24 Ore, May, 4th, 2015

Cipolletta I., “*Il bilancio istituzionale di un triennio*” [it], AIFI Annual Meeting, Milan, March, 20th, 2015

Consob, “*Relazione per l’anno 2014*” [it], March, 31st, 2015

Dagong Europe Credit Rating, “*China’s Foreign Investments at a Record High. Europe Gaining Importance*”, April, 20th, 2015

Eurostat, “*Net international investment position – annual data*”, web database available at http://ec.europa.eu/eurostat

Fatiguso R., “*New investments from Singapore seen in the wake of Minister Padoan’s trip*”, Italy24, Il Sole 24 Ore, April, 10th, 2015

International Capital Market Association (ICMA), “*Pan-European Corporate Private Placement Market Guide*”, February, 2015

International Monetary Fund, “*Global Financial Stability Report. Risk Taking, Liquidity, and Shadow Banking. Curbing Excess while Promoting Growth*”, October, 2014

International Monetary Fund, “*Fiscal Monitor. Now Is the Time. Fiscal Policies for Sustainable Growth*”, April, 2015

IR Top “*Segmento STAR di Borsa Italiana*” [it], press release, March, 24th, 2015

ISTAT, “*Struttura e attività delle imprese a controllo estero*” [it], Statistiche in breve, various years

ISTAT, “*Monthly Report on Italian economy*”, No. 4, April, 2015

KPMG, “*Rapporto Mergers & Acquisitions. La ripresa si consolida, ma l’Italia è sempre più preda. Anno 2014*” [English Version], KPMG Corporate Finance, 2015

Mariotti S., Mutinelli M., and Sansoucy L., "*Italia Multinazionale 2014. Le partecipazioni italiane all'estero ed estere in Italia*", Italia Multinazionale 2015, ITA-Italian Trade Agency, Rome, May, 2015

MEFOP, "*Bollettino Statistico*" [it], No. 55, December, 2014

Ministry of Economic Development, "*Pride and Prejudice. #theforceofexport. What you don't know about Made in Italy*", 2015

Ministry of Economy and Finance, "*Italy's Structural Reforms since October 2014*", February, 2015

Ministry of Economy and Finance, "*Dettagli del collocamento del nuovo BTP a 15 anni*" [it], press release, March, 18th, 2015

Ministry of Economy and Finance, "*Composizione della domanda durante le due fasi di collocamento dell'ottavo BTP Italia*" [it], press release, April, 17th, 2015

Ministry of Economy and Finance, "*Guidelines for public debt management*", 2015

Roland Berger Strategy Consultant, "*The European Private Equity Outlook 2015*", February 2015

Sala G., "*Expo Milano 2015 a springboard to attract investment in Italy: before, during and after the universal Exhibition*", published on www.etribuna.com on 18th February 2015

UNCTAD, "*World Investment Report*", 2014

Vetter S., "*Recent trends in FDI activity in Europe. Regaining lost ground to accelerate growth*", Deutsche Bank Research, August, 21st, 2014

World Bank, "*Doing business 2015*", Washington DC, USA, 2015

World Economic Forum, "*The Global Competitiveness Report 2014–2015*", Geneva, 2014

THE AUTHORS

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

Emanuela Atripaldi
Division of Banking Supervision, Bank of Italy, Milan offices

Alessandra Piro
Senior Consultant, Consilia Business Management Srl, Milan

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

Michela Valsecchi
Division of Banking Supervision, Bank of Italy, Milan offices