

25th Anniversary of the Foundation of  
the Association of Foreign Banks in Italy

## **Supervision of foreign banks in Italy**

Remarks by Anna Maria Tarantola  
Deputy Director General of the Bank of Italy

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<i>1. Introduction</i>	1
<i>2. Internationalization</i>	3
<i>3. Foreign banks in Italy</i>	4
<i>4. Supervision</i>	9
<i>5. Developments in regulation and supervision</i>	12
<i>6. Conclusion</i>	14
<i>Annex (Tables and Figures)</i>	16

## ***1. Introduction***

I am happy to participate in this seminar marking the quarter century since the foundation of the Association of Foreign Banks in Italy.

I witnessed the beginning of the association with the encouragement of Guido Rosa, Vittorio Foroni Lo Faro and Remigio Saracino, who were always ready to bring up the problems that foreign banks, mainly present with branches back then, encountered in Italy. These twenty-five intense years have seen a succession of phases of growth and recession, enormous changes in finance and the real economy, the opening up of national markets, the steady integration of the main financial systems and the introduction of the euro.

The last two years have been particularly difficult, marked by a deep and far-reaching crisis that, in the financial sector, has made evident distorted incentives, opportunistic behaviour and widespread vulnerabilities which often had not been fully perceived.

The crisis now seems to be loosening its grip. The main international institutions agree, on the basis of the latest cyclical indicators, that economic activity has stopped contracting; the improvement in the indicators of consumer and business confidence suggest the coming months will bring a recovery, though a slow one. The state of the financial system has also improved; the wholesale and retail markets, fundamental for the procurement of funds and the exchange of financial products, appear to be gradually getting back into gear.

But we are far from the pre-crisis levels of output and employment. In many countries, including Italy, the magnitude of the crisis and its effects on the real economy are such that years of rapid growth will be needed to return to those levels.

The weak international recovery we are seeing is mainly driven by the support measures put in place by the governments of the main countries. The expansion is proceeding at a faster pace in the emerging countries, in particular those of Asia, which have shown a greater capacity to resist and react – perhaps in part because of the lessons learned in the crisis at the end of the last millennium. Hopefully, careful and consistent economic policies will enable this wave of recovery to extend fully to the advanced economies and Italy.

In the financial field, the major items on the agenda are two: to swiftly put into place a new regulatory and supervisory framework that remedies the deficiencies brought out by the crisis, and to make the financial system fully operational again so as to ensure, in Italy as elsewhere, the flow of resources needed to accompany and sustain the economic recovery.

The process of stabilizing and strengthening the financial system and rewriting the rules is proceeding according to the calendar set by the leaders of the G20 and the Financial Stability Board (FSB). The set of reforms, once enacted, should increase the financial system's resilience to shocks, encourage the development of models for intermediation oriented to long-term results, and eliminate the incentives for excessive risk-taking by stimulating more far-sighted behaviour based on the sound and prudent management of intermediaries.

Concerns that the banking system will be unable to provide sufficient support to the economy are particularly strong in Italy, not least because of the financial structure of our small and medium-sized enterprises, heavily dependent on bank credit and historically skewed towards short-term debt. The crisis can – and must – be an opportunity for resolute action to rebalance the structure of firms' liabilities. In their selection activity, banks must be able to assess firms' long-term growth potential, to assist them in their development.

In this context, the contribution of foreign banks can be significant, especially in some segments of the economy. In Italy today, the branches and subsidiaries of foreign intermediaries account for one fifth of all bank intermediation, a share comparable to that of many other advanced economies. An analysis of the past is useful not only to identify the contribution that foreign banks have made to their host markets – in terms of competitiveness, innovation and the quality and quantity of services provided – but also to outline their possible future contribution. This has several determinants: the types of foreign intermediaries, their business model, their objectives, their results and the impact on prices.

The Bank of Italy is following these matters closely; indeed, it could not do otherwise. I will therefore retrace some of the stages of the success story of foreign banks' expanding role in Italy and highlight the difficulties that must be overcome so that this progress may continue to the benefit of the Italian economy, and the implications for the Bank of Italy.

## ***2. Internationalization***

There are several reasons why a bank may decide to enter foreign markets: *i)* to take advantage of the host country's growth potential and thereby tap new profit opportunities; *ii)* to follow its own customers abroad; and *iii)* to diversify its activity.

A recent survey by the European Central Bank of the drivers of the international expansion of the largest European banking groups highlighted two main factors. Some 80 per cent of the respondents declared that expansion abroad was aimed at exploiting growth opportunities in the host market and thereby increasing profit margins, while 59 per cent cited the need to provide services to their customers operating abroad;<sup>1</sup> business diversification was a less important goal.

In the past decade the integration of international financial systems has intensified and extended to the banking system. In many countries the number and the market share of foreign intermediaries have grown as a result of the expansion of banking groups' activities beyond national borders and the increase in cross-border mergers and acquisitions. The process, initially involving the financial markets of the emerging countries, has spread to the mature economies, albeit to a more limited extent.<sup>2</sup>

In the European Union, cross-border bank mergers and acquisitions have increased in both number and value. Between 2005 and 2007 more than 350 were carried out, largely between intermediaries from different countries. The trend abated in 2008, owing to the international financial crisis, but it did not come to a halt, with cross-border mergers and acquisitions down in number but up in value from the previous year.<sup>3</sup>

At the end of 2007 branches and subsidiaries of foreign banks accounted for a little less than 30 per cent of total bank assets in the European Union. Foreign banks have a

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<sup>1</sup> European Central Bank, *EU Banking Structures*, 2008.

<sup>2</sup> Committee on the Global Financial System, *Foreign direct investment in the financial sector of emerging market economies*, Bank for International Settlements, 2004.

<sup>3</sup> European Central Bank, *Financial Integration in Europe*, 2009.

particularly large market share in the United Kingdom, where it exceeds 50 per cent thanks above all to London's central role in international finance. It is also large in the European Union's new member countries, in connection with the acquisition of major local banks by foreign intermediaries. In the euro-area countries, foreign banks' share of total assets averages about 20 per cent. The share of loans granted by non-domestic institutions has doubled in the last ten years, rising from just under 4 to about 8 per cent of outstanding loans to EU residents (from 26 to 37 per cent for bank and financial counterparties).

Foreign banks are major players in the economies of central and eastern Europe, where they contributed to the privatization of the banking system after the collapse of communism. In those countries the leading international banks raised the efficiency of the financial system with transfers of know-how and technology, improved the allocation of credit and brought stability after the severe financial crises of the early 1990s. However, the recent financial crisis has revealed the risks deriving from the excessive concentration of the credit markets and their vulnerability to events originating in the foreign banks' home countries.

In the mature economies of Europe, the nature of the benefits and risks generated by the integration of banking systems is similar but their scale is smaller.

Within the European Union we have seen a reduction in interest rate differentials and convergence towards the most competitive levels.

### ***3. Foreign banks in Italy***

I said that foreign banks are spurred to enter a country by the growth prospects of specific market segments in which the host-country's intermediaries do not enjoy locational advantages or are lagging in adapting their supply. Our own history provides more than one example of this.

The number of foreign intermediaries in Italy has risen continually in the last twenty-five years, from just over thirty in the mid-1980s to more than one hundred today. Their market share is significant. In 2007, the latest year for which we have data for an

international comparison, their share of total bank assets was 17.4 per cent, higher than the corresponding figures in Germany, France and Spain (11.1, 12.9 and 11.6 per cent, respectively). It declined slightly in the first half of this year, to 16 per cent, owing to the international financial crisis and the exit of some intermediaries from the Italian market.

Foreign banks' reasons for entering Italy have changed over the years. A first substantial inflow dates from the late 1970s and early 1980s, in parallel with the growth in world trade and the business expansion of multinational corporations. Many foreign banks began to operate in Italy through branches, mainly in order to serve prime customers on the spot. Another factor of no small importance was their objective of taking advantage of the administrative constraints then burdening the operations of Italian banks. In particular, foreign intermediaries could exploit their parent banks' foreign currency funding, which they used to make foreign currency loans to both non-bank customers and Italian banks, and the possibility of raising funds at moderate costs on the interbank market.

Foreign banks accounted for about 4 per cent of total assets, with a higher market share for loans to non-bank customers and for commitments and contingent liabilities. The profit margins they achieved on both loans and investments were substantial, especially compared with those obtaining in their home countries.

In this first phase, marked by strong regulatory constraints on the activity of Italian banks, foreign intermediaries helped decisively to expand the range of services, especially financial services, offered to customers. On the other hand, their scant presence in retail banking markets limited their contribution to the growth in competition.

Starting in the mid-1980s the Italian banking system underwent progressive liberalization and modernization whose milestones were the removal of the ceiling on the growth in bank lending, the abolition of the securities investment requirement and the lifting of the restrictions on branching. All this affected the activity of the foreign banks, which contracted – significantly in several instances – in some business segments. By 1990 their share of total assets had fallen to 2.6 per cent and that of loans to non-bank customers to 3 per cent.

In response to these developments, foreign intermediaries moved increasingly into wholesale financial markets, which were relatively backward at the time but with good potential for growth: they quickly expanded their presence in securities business, asset management services, correspondent banking (cash management for customers, as well as hedging and foreign exchange transactions) and investment banking (in particular raising funds directly on the capital market by placing equity and bond issues and syndicated loans).

In the mid-1990s, the foreign banks' off-balance-sheet transactions exceeded 42 per cent of the system's total, mainly owing to the large volume of forward business in securities and derivatives.

Throughout this phase, the most popular type of establishment was still the branch, which was more flexible and better suited to supply policies centred on specific ranges of services geared to a limited time horizon.

When, in the 1990s, the European regulatory framework was completed with the institution of freedom of establishment and home country control, a level playing field was created for the activity of local banks and foreign banks and competition intensified further. The creation of a single banking market in Europe drastically altered entry procedures for EC banks, which now had a quicker method of access – simple notification to the Bank of Italy – that obviated the need for endowment funds for their branches. Supervision of the foreign establishments of EU banks was entrusted to the home country authorities, except in respect of liquidity.

The process of integration accelerated with the introduction of the single currency, which acted as a catalyst for the main corporate projects of industrial and financial reorganization.

Partly as a result of these developments, foreign institutions have entered the Italian market in greater numbers in recent years, and increasingly in traditional banking business, seeking to exploit not only the growth potential of the retail and mid-corporate sectors but also Italian households' considerable saving capacity.



Entry into the retail market was achieved mainly by takeovers of local banks and financial companies, not least to gain the competitive advantage stemming from local roots and close customer relations. Subsidiaries of foreign banks operate as networks of their international groups they belong to; their commercial policies are geared to expansion, to enlarging the network and strengthening links with the product companies of the foreign parents.

Between 1990 and 2005, the market share of foreign intermediaries rose from 2.6 to 8 per cent of total assets. It has expanded further since then, to around 16 per cent in the first half of 2009.

There has been a substantial increase in foreign intermediaries' lending to households (Table 2). Operators specializing in mortgage lending and consumer credit using credit scoring techniques have entered the Italian market. This development, which facilitated households' access to these forms of finance, also led to innovations in the types of contracts,<sup>4</sup> longer durations, higher loan ceilings, and a larger percentage of financial risk than the Italian average. In the first half of this year, 15 per cent of the mortgage lending market and 28 per cent of the personal finance market were accounted for by foreign banks, compared with 0.2 and 7.7 per cent in 1990. Their customer deposits have also increased, albeit more slowly than lending, rising from 1 per cent of the total in 1990 to over 9 per cent in 2008.

Currently, foreign banks are present in Italy in a wide variety of formats (branches, subsidiaries, significant shareholdings); they occupy a leading role for a broad selection of products ranging from corporate banking services to wholesale market operations and clearing and settlement services, from project finance to asset management and financial advice, and from leasing to traditional banking.

In certain segments, such as depositary bank services, local government financing and consulting, and the structuring and sale of derivative instruments, foreign banks play a major

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<sup>4</sup> Casolaro, L., L. Gambacorta, and L. Guiso (2005), "Regulation, formal and informal enforcement and the development of the household loan market. Lesson from Italy", Bank of Italy Working papers (Temi di discussione) no. 560, September.

role. Their branches and subsidiaries account for almost a quarter of the total securities held for custody, a share that may increase significantly if and when the sales announced by several large Italian groups go through. It is important that the advantages of the possible economies of scale be passed onto customers and that the services provided be effectively adapted to the needs of Italian operators.

The Italian branches of foreign banks have seen their profits suffer as a result of the crisis since their business tends to be concentrated in the investment banking sector, which has borne the brunt of the downturn. Their earnings have become negative.

Subsidiaries, on the other hand, have had generally positive results. All of them were profitable in 2008 and in some cases their gross income and gross operating profit increased. These results are particularly important when compared with those of the foreign parent companies, many of which sustained heavy losses and a substantial rise in allocations to provisions.

The reason for the better performance of Italian subsidiaries is their focus on retail banking. Cost-cutting measures, including downsizing, also contributed.

The differences between the types of business of branches and subsidiaries are reflected in the recent performance of lending by the two categories. In the case of branches, for a long period, and until the summer of 2008, the rate of growth in lending was over 20 per cent, owing to the sharp expansion of syndicated loans to medium-large firms and financial companies; it then progressively contracted, to turn negative by 5.6 per cent in September 2009, as a result of the impact of the crisis on wholesale operations. By contrast, subsidiaries continued to record higher rates of growth than the system average, for lending to both households and firms.

Empirical analyses by the Bank of Italy<sup>5</sup> indicate that foreign banks have helped to increase customer mobility, particularly in the case of households, and encouraged product innovation.

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<sup>5</sup> Infante L. and P. Rossi (2009), "The Retail Activity of Foreign Banks in Italy: Effects on Credit Supply to Households and Firms", Bank of Italy Working papers (Temi di discussione) no. 714, June.

The increased competition led to a drop in interest rates on medium and long-term mortgage loans to households. The annual reduction averaged about 15 basis points over the period 1997-2006 and 18 basis points in the last five years. More recently, the average collateral on medium and long-term loans has also decreased, presumably as a result of rising loan-to-value ratios.

The entry of foreign banks does not appear, however, to have affected the interest rates applied to firms, either on short or on medium-to-long-term financing. This is probably due to the difficulty foreign banks have in evaluating projects to be financed because of their lack of local roots and hence of a close relationship with borrowers. Even in the case of firms, however, the presence of foreign banks has been accompanied recently by a tendency to reduce the collateral on medium and long-term loans.

#### ***4. Supervision***

The changes in the presence of foreign banks operating in Italy and in their business models have led to major alterations in the approach taken by supervision. These developments have been strongly influenced by the progress of international financial integration, above all in Europe.

In the single European market the principle of home-country control means that branches of banks from other member states are subject to a significantly different supervisory model from that applied to subsidiaries established under Italian law. Controls on the former are entrusted almost entirely to the home-country authorities, with the notable exception of liquidity risk, which is monitored by the host country. The Bank of Italy monitors liquidity risk in various ways; since September 2008 controls have been tightened and banks are now required to maintain a positive net liquidity position on maturities up to one month. When the strains were at their height, direct steps were taken in respect of foreign parent banks, with the help of the relevant supervisory authorities. Specific measures of an extraordinary nature can be adopted for branches of foreign banks with a significant volume of deposits raised in Italy.

The Bank of Italy's supervision of branches includes important controls on the transparency of banking services offered to customers and against money-laundering, about which I will say more shortly.

Controls on subsidiaries are more intensive and resemble those applied to Italian banks. In keeping with the new prudential framework established in the Basel II Accord these must be coordinated between the home- and host-country authorities. This highly ramified supervisory system involving various authorities with different powers makes the task of supervision a complex and difficult one, in a setting in which foreign intermediaries are exposed to an expanding array of risks, including operational and reputational risks.

As in its supervision of Italian banks, the Bank of Italy increasingly directs and calibrates its activity based on risks and their importance. To comprehend their evolution and impact, it has held more meetings with the subsidiaries of foreign groups. This dialogue is useful for a timely and in-depth analysis of operational choices, in the context of those taken at group level, and of the risk management and control systems. Inspections, including those of a partial nature, have been intensified.

A start has been made on action to strengthen internal control systems, which were found to be inadequate in some cases. The reaction has been positive, but the process of adapting to higher standards is not yet complete. The corporate culture of several big financial groups requires a thorough rethinking in order to forge a new relationship between business units and control functions. These controls must be assigned greater importance than in the past.

The performance of depositary banks' activities require organizational structures and working processes capable of curtailing the operational and reputational risks to which custodians are subject. The regulatory framework governing this sector in Italy fosters reliable and transparent conduct: for example, the distinction between management companies and depositary banks makes it easier to control their operations, the quality of valuations and the actual amount of assets held for custody. This arrangement has prevented the emergence of similar risks to those seen in other systems. Efforts must continue to make this activity even more effective and secure for customers.

Derivatives business can expose banks to major legal and reputational risks, as the numerous ongoing legal disputes testify. For some time now we have intensified our activity on this front, both by reminding banks of the need for proper conduct and careful risk assessment, and through the monitoring of the phenomenon, including via targeted on-site controls. We must not lower our guard.

One aspect that can condition supervisory activity is the availability of full information on the activity of foreign branches, and to some extent also of the subsidiaries present in Italy, when their role is merely to distribute products developed abroad, often in London. In these cases it becomes difficult to obtain, even during on-site examinations, the documentation needed to reconstruct the operations of the foreign intermediary in Italy; in some cases the transactions in question are complex, exposing banks to high operational, legal and reputational risks that are difficult to quantify. In accordance with the division of responsibilities under Community legislation, there is a need for greater cooperation between foreign intermediaries and the authorities of the countries in which they offer their services.

Improvements in transparency are necessary: foreign intermediaries must also comply with the advertising obligations, follow the rules on contracts and, in general, set up customer relations on a completely correct basis. It is essential, in particular, that a careful selection be made of agents responsible for distributing credit cards, a sector in which several foreign banks are very active.

A qualitative leap is also called for on the sensitive issue of money laundering, with a greater commitment by top management, more intensive staff training and more stringent controls. At times we have found the phenomenon to be underestimated by foreign parent banks when setting up programmes for organizing and reorganizing their Italian units.

The supervision of foreign banks must reconcile the requirements of control over institutions that can have systemic importance in the national territory with the powers of the supervisory authority in the country where the parent company is established. This is a delicate process, requiring a balanced and pragmatic approach. The Bank of Italy has stepped up the activity it performs in the colleges of supervisors. In addition to validating internal risk-measurement systems, the colleges' activities have gradually – and not without

difficulty – been extended to broader issues, concerned with the very stability of cross-border banking groups.

### ***5. Developments in regulation and supervision***

The integration of the markets and the broad process of internationalization can facilitate the spread of instability, even if localized at first, and require a coordinated response. This is why it is essential not only to proceed rapidly to introduce new common rules for the financial sector, aimed at reducing the risk of systemic crises, but also to achieve greater homogeneity in their actual application and to strengthen cooperation between national supervisory authorities. The proposals for reform of the rules touch on numerous issues: the capital adequacy of banks, the size of the regulatory perimeter, the planning of measures to attenuate the pro-cyclicality of banking activity, capital buffers, the introduction of limits on the financial leverage of intermediaries, the improvement of corporate governance and executive compensation mechanisms, the role of systemically important intermediaries, integration between macro-prudential and micro-prudential supervision, and international coordination between authorities in supervising cross-border institutions.

Effective supervision of international groups and the institution of a truly integrated monitoring process will require overcoming the divergences still found between the approaches of the various authorities, especially in the definition of the scope of consolidation for banking groups, the application of Basel Pillar 2, the treatment of liquidity risk, the reporting of off-balance-sheet vehicles, accounting standards and prudential reporting.

The FSB, under the leadership of the Governor of the Bank of Italy, has concluded that the international college of supervisors is the most suitable instrument for strengthening cooperation and information exchange among the national supervisory authorities involved in the oversight of cross-border groups. This instrument, already current within the European Union and amply utilized in Italy, will be reinforced in the near future and extended to all cross-border groups. To make action more effective, a clear legislative framework and a precise definition of the powers and duties of colleges are necessary. For the most part, they

have worked well as the place for information exchange but have not developed a real capability for the joint assessment of the risks of groups and their components or for the effective coordination of supervisory action.

Colleges' decision-making powers need to be reinforced, with machinery for settling disputes and a powerful coordinating role for the consolidated supervisor. This process should be complemented by greater recognition of the role of the parent company under Community legislation on banking groups to establish a proper distribution of costs and benefits among all the components of the group. The Italian law on banking groups can offer useful points of reference here.

In addition, colleges need to become the forum for the integrated risk assessment of groups and their main components, in order to plan supervisory action and corrective intervention. This requires the development of common methodologies and the sharing of information, including through central databases accessible to all the authorities within the college, to favour joint monitoring of the main risks.

There have been problems in the management of crises involving cross-border groups. In particular, what is lacking is agreement on the method for sharing the costs of intervention. In practice, government support has gone exclusively to the national members of troubled groups and not to sustain the group as a whole. Supervisory colleges have not played a central role when group crises have occurred, as would have been desirable. Even in cases in which cooperation was thought to have produced a good degree of uniformity in regulatory approaches, national needs and practices prevailed. The "too-big-to-fail" syndrome is currently under discussion in international fora, with various proposed remedies, including the imposition of additional capital requirements and other, more radical proposals for reducing the size and interdependence of group structures with global systemic relevance. The debate is still just beginning, and the eventual results could have a considerable impact on market integration.

The European Commission has worked up a set of proposals to improve cooperation among national supervisors, harmonize crisis management and resolution measures and clarify the standards for sharing the costs of banking crises among countries.

The most significant proposals are for: enhancing the quality and quantity of information that home and host supervisors exchange, both in normal times and in crises; host supervisors' participation in colleges, including when the case involves important branches or subsidiaries; creating a new European System of Financial Supervisors (ESFS) grouping three sectoral agencies (the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities Markets Authority), for more effective supervision over the major European groups; and forming a new European Systemic Risk Board, in order to sharpen the macro-prudential focus of supervisory policy.

A few weeks ago the Commission released a consultation document setting out its projects for enhancing supervisory authorities' early intervention at ailing banks, and their crisis management and resolution. The idea is to revise European company and bankruptcy law, together with compulsory deposit insurance schemes, and, more generally, the financing of crisis intervention measures.

The set of regulatory changes under consideration, once implemented, will have significant impact on the conduct of banking supervision over national and foreign intermediaries alike and on the roles and responsibilities of the various authorities. There will be a period of intense dialogue with intermediaries, whose organizational and business models could be affected.

## ***6. Conclusion***

I believe that the Italian experience over the past twenty-five years has been positive on the whole. Foreign banks have significantly enlarged their presence in Italy and helped spread new business models, different even from those of their own home markets. These foreign intermediaries contributed substantially to the growth of the Italian banking industry in terms of innovation, service quality and quantity, and stiffer competition. Italian savers and investors benefited. The contribution was greater in some market segments, less noticeable in others.



During the recent crisis, in Italy – unlike other countries – the presence of foreign banks did not cause strains or inflict losses on Italian savers and investors. However, more highly diversified lines of business and the rapidly evolving external environment have increased risk exposure, especially in some segments. The Bank of Italy has accordingly adjusted supervisory approaches and instruments to guarantee the continued effectiveness of its action, adapted to the evolution of risks. In recent years the chief focus has been on liquidity, operational, legal and reputational risks.

The closer integration of financial markets heightens the danger of contagion. The debate on the effectiveness of supervision over the major cross-border groups, with their often over-complex organization, is still under way. Obviously, this is a question that ranges beyond national confines. If the crisis was – unquestionably – global, then the review and reinforcement of the supervisory architecture needs to be as internationally coordinated as possible. The regulatory response to cure a financial system that has proven to be borderless and highly interconnected cannot be marked by divergent national emphases and approaches. It must follow common guidelines and methods of application based on shared principles. Otherwise, we would be leaving ourselves open to regulatory arbitrage and opportunism on the part of the large global players. In this new framework there cannot and must not be any room for supervisors to favour their own financial marketplace by light regulation.

There is now broad international consensus on the need for common rules, uniform supervisory measures, severe and cogent enforcement, enhancement of the role of supervisory colleges and cooperation among authorities. Hopefully, this consensus will translate rapidly into practical action.

The Bank of Italy is convinced that stepped-up cooperation and collaboration is the best way to minimize the risk of new crises and avoid the recurrence of the severe damage sustained in the last two years.

As the authority responsible for prudential supervision in Italy, we scrupulously apply the rules agreed on internationally and in Europe, in tandem with especially careful and severe controls. This we do every day. Recent experience has shown that it is necessary to maintain this course.

## *Annex (Tables and Figures)*

Table 1

**PRESENCE OF FOREIGN BANKS IN THE EU COUNTRIES***(with reference to the end of 2007)*

	Number of foreign intermediaries present (branches and subsidiaries)		Market share of foreign intermediaries (total assets )	
	<i>of which: branches</i>		<i>of which: branches</i>	
Belgium	85	58	24.8	6.9
Bulgaria	21	5	81.6	4.0
Czech Republic	34	14	91.5	8.9
Denmark	31	22	19.3	5.0
Germany	123	84	11.1	2.1
Estonia	13	8	98.8	11.2
Ireland	69	32	46.7	10.2
Greece	35	27	23.2	9.6
Spain	127	80	11.6	7.8
France	239	88	12.9	2.2
Italy	99	82	17.4	9.5
Cyprus	33	25	32.1	11.8
Latvia	13	2	58.0	0.0
Lithuania	8	3	83.7	8.0
Luxembourg	151	43	95.0	15.9
Hungary	30	6	57.4	1.6
Malta	16	3	42.6	0.0
Netherlands	50	23	17.6	2.5
Austria	53	27	26.9	1.2
Poland	54	14	70.5	4.1
Portugal	36	24	23.0	6.8
Romania	34	10	82.1	4.8
Slovenia	11	3	28.5	0.6
Slovakia	25	10	95.9	19.6
Finland	33	25	65.3	5.3
Sweden	24	16	9.3	9.0
United Kingdom	264	174	53.4	42.3
MU – 13	1111	596	19.5	4.9
EU – 27	1711	908	28.7	14.2

Source: Based on European Central Bank data.

Table 2

**MARKET SHARES OF FOREIGN BANKS IN ITALY***(annual averages with reference to bank branches and subsidiaries)*

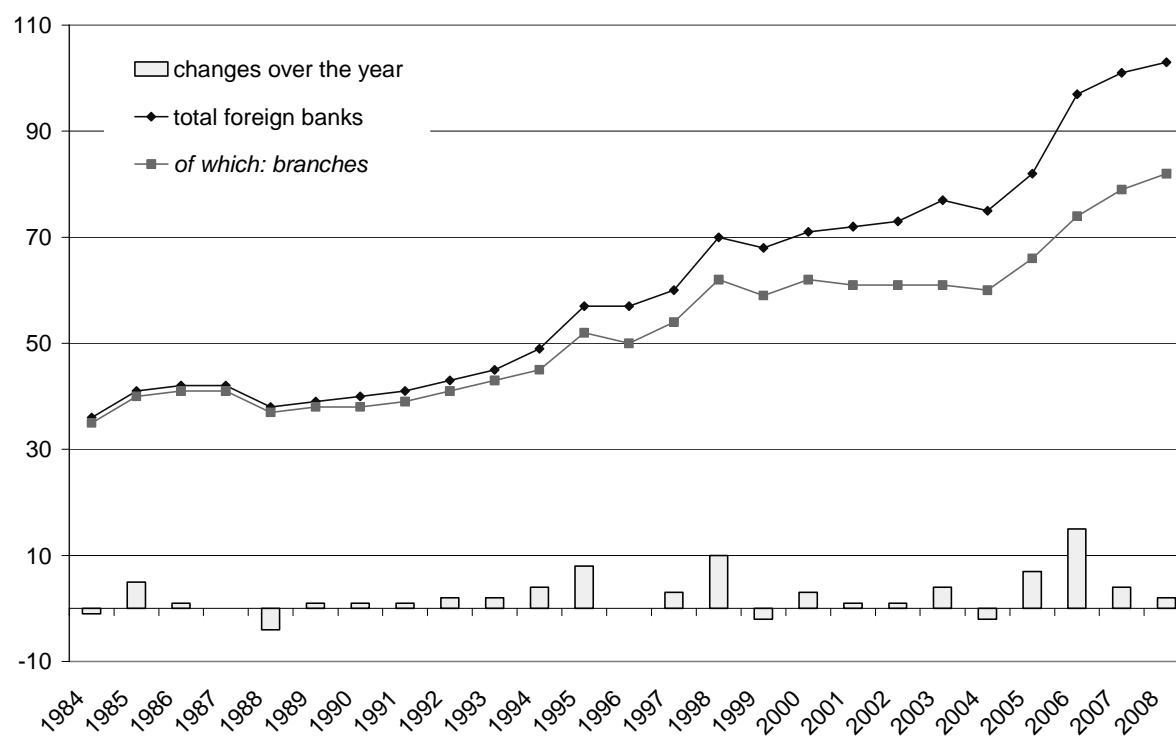
	1984	1990	1995	2000	2005	2008	2009 (1)
Total branches and subsidiaries							
Total assets	4.2	2.6	5.2	7.1	7.9	16.4	16.2
Interbank assets	9.8	6.0	15.7	12.9	13.3	20.6	17.1
Loans	5.2	3.0	2.7	5.8	9.0	16.2	15.8
<i>mortgage loans</i>	0.7	0.2	0.3	5.7	5.8	12.5	15.2
<i>personal loans</i>	11.5	7.7	6.2	14.2	27.7	35.4	27.5
Securities	1.6	1.5	6.3	10.1	9.9	17.6	12.0
Deposits	1.0	0.9	2.0	2.9	4.7	11.2	9.3
Interbank liabilities	13.7	9.7	16.3	19.3	24.0	32.7	27.6
Off-balance-sheet items	8.6	6.1	5.4	10.6	11.3	13.5	12.3
Commitments and contingent liabilities	29.5	24.4	42.6	16.8	6.9	27.3	11.9
Securities held for custody	1.9	2.2	5.6	9.0	10.7	28.7	33.3
<i>of which: branches</i>							
Total assets	3.3	1.8	4.1	4.8	5.4	9.4	8.9
Interbank assets	8.6	5.0	14.2	9.9	10.3	12.5	10.7
Loans	4.0	1.9	2.0	3.0	6.3	7.7	7.2
<i>mortgage loans</i>	0.2	0.1	0.2	0.7	2.6	3.6	4.6
<i>personal loans</i>	0.1	0.0	0.2	3.0	9.0	3.5	5.6
Securities	1.2	1.3	5.2	7.9	4.3	7.6	5.9
Deposits	0.2	0.2	0.8	1.4	3.2	3.0	2.2
Interbank liabilities	12.5	8.7	15.0	15.0	20.3	22.1	19.3
Off-balance-sheet items	6.9	4.9	4.4	6.2	5.2	5.5	5.1
Commitments and contingent liabilities	28.6	23.0	40.9	15.3	4.6	20.0	7.8
Securities held for custody	1.3	1.5	4.5	7.2	8.5	14.5	10.8

Source: Supervisory reports.

(1) Average of the first 6 months of the year. Some items may have different definitions from the past owing to changes in the reporting procedures.

Figure 1

# NUMBER OF FOREIGN BANKS PRESENT IN ITALY (with reference to bank branches and subsidiaries)

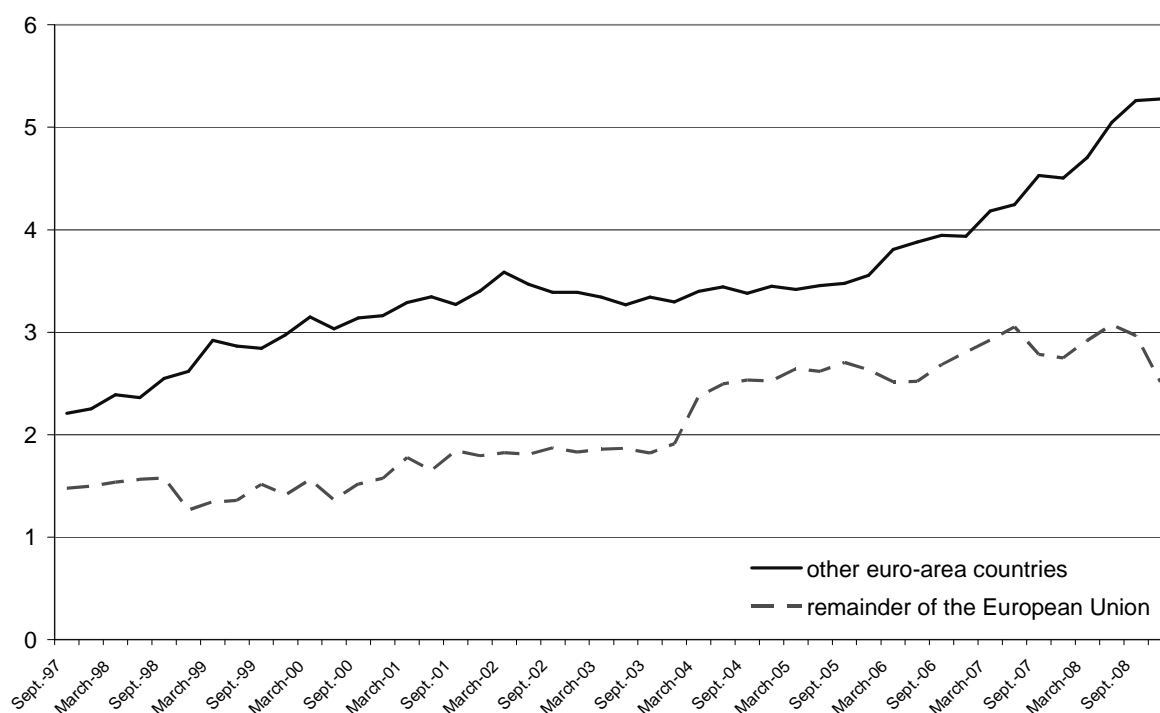


Source: Supervisory reports.

Figure 2

# LOANS BY EU BANKS TO NON-RESIDENTS (1)

*(amount by residence of counterparty  
as a percentage of total outstanding loans)*



Source: European Central Bank.

(1) Outstanding loans granted by banks having their registered office in the European Union to non-institutional customers resident in other EU countries. The counterparties do not include monetary financial institutions.