



# **FINLOMBARDA S.p.A.**

## **The Public Financial Institution of Lombardy Region**

Pamplona, 27th October 2017



RegioneLombardia

**Fin**lombarda

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2. Public financial institutions in Italy:
  - a) National level
  - b) Regional level
3. Focus on Finlombarda



## About public banking in Italy

### THE PRESENCE OF THE PUBLIC BANKS

### THE PRIVATIZATION OF THE BANKING SYSTEM

1990

Amato law (law 218/1990)

*The Italian banking system structure was characterized by the presence of the IRI (Istituto per la Ricostruzione industriale), which was a public holding company containing the three “Banks of National Interest” (Banca Commerciale Italiana, Credito Italiano, and Banca di Roma) and a large number of public banks.*

*The limited company becomes the basic organizational entity in the banking system.*

*The non-profit activities of public banks are concentrated in newly established Banking Foundations, and the banking activities were segregated into limited corporations with a for-profit purpose—the “new” savings banks.*

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2. Public financial institutions in Italy:

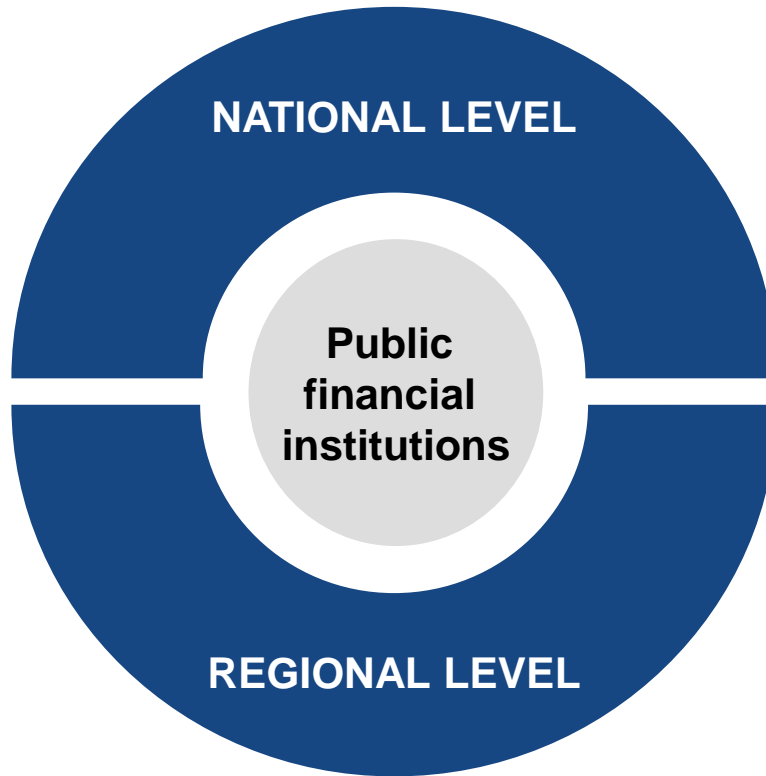
a) National level

b) Regional level

3. Focus on Finlombarda



# Public financial institutions in Italy



- INVITALIA
- Cassa depositi e prestiti
  - Sace
  - Simest
  - ....

- 
- Finlombarda
  - Finpiemonte
  - Veneto Sviluppo
    - FIRA
    - FILSE
    - ....

Finlombarda

## Examples at national level

### Istitution

### Description



- Legal form: Limited company
- Public control: direct and full (fully-owned by Ministry of Economy)
- Range of activities: financing focused on start-up



- Legal form: Limited company
- Public control: direct and by majority (Ministry of Economy is the majority shareholder)
- Range of activities: lending, equity, services



- Legal form: Limited company
- Public control: indirect and fully (fully-owned by Cassa depositi e prestiti)
- Range of activities: insurance and financial products for export

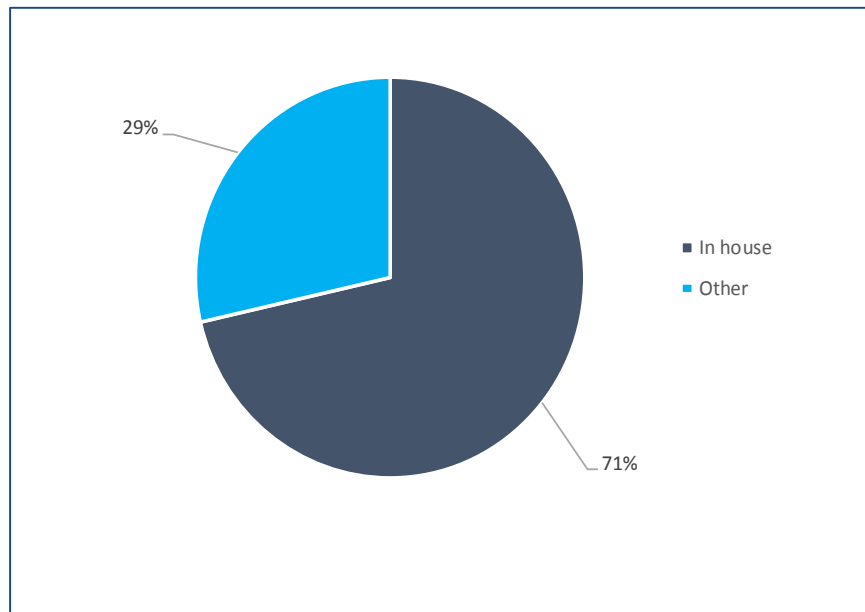


- Legal form: Limited company
- Public control: indirect and by majority (SACE is the majority shareholder)
- Range of activities: financing for internationalization, export credit and equity

## Public financial institutions at regional level

- A **common goal**: supporting economic development of their region
- **Different operating models and activities**. Can be classified on the basis of two different operating models:
  - ***Approach to the market*** («market players» vs in-house companies)
  - ***Kind of activities*** (financial intermediaries vs service companies)

% for Companies «in house»



- Most of Regional Financial Institutions (71% on total) are in house companies.
- For most of the others («market players») the Region is the majority shareholder (minority shareholders are often private banks).
- Only some of them (9) have the Financial Intermediary status, operating assuming risks on their own balance sheets and then under the Bank of Italy oversight.

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# Lombardy Region's contest



- ❑ **GDP:** 331 billion Euros (21% of national GDP and 5<sup>th</sup> across Europe)
- ❑ **Population:** 10 million inhabitants (16.5% of national population and 4<sup>th</sup> across Europe)
- ❑ **Number of enterprises:** 812,000 (15,6% of total enterprises in Italy)
- ❑ **Area:** 24,000 sqkm (8% national territory)
- ❑ **Main sectors:** Services, manufacturing, Agriculture

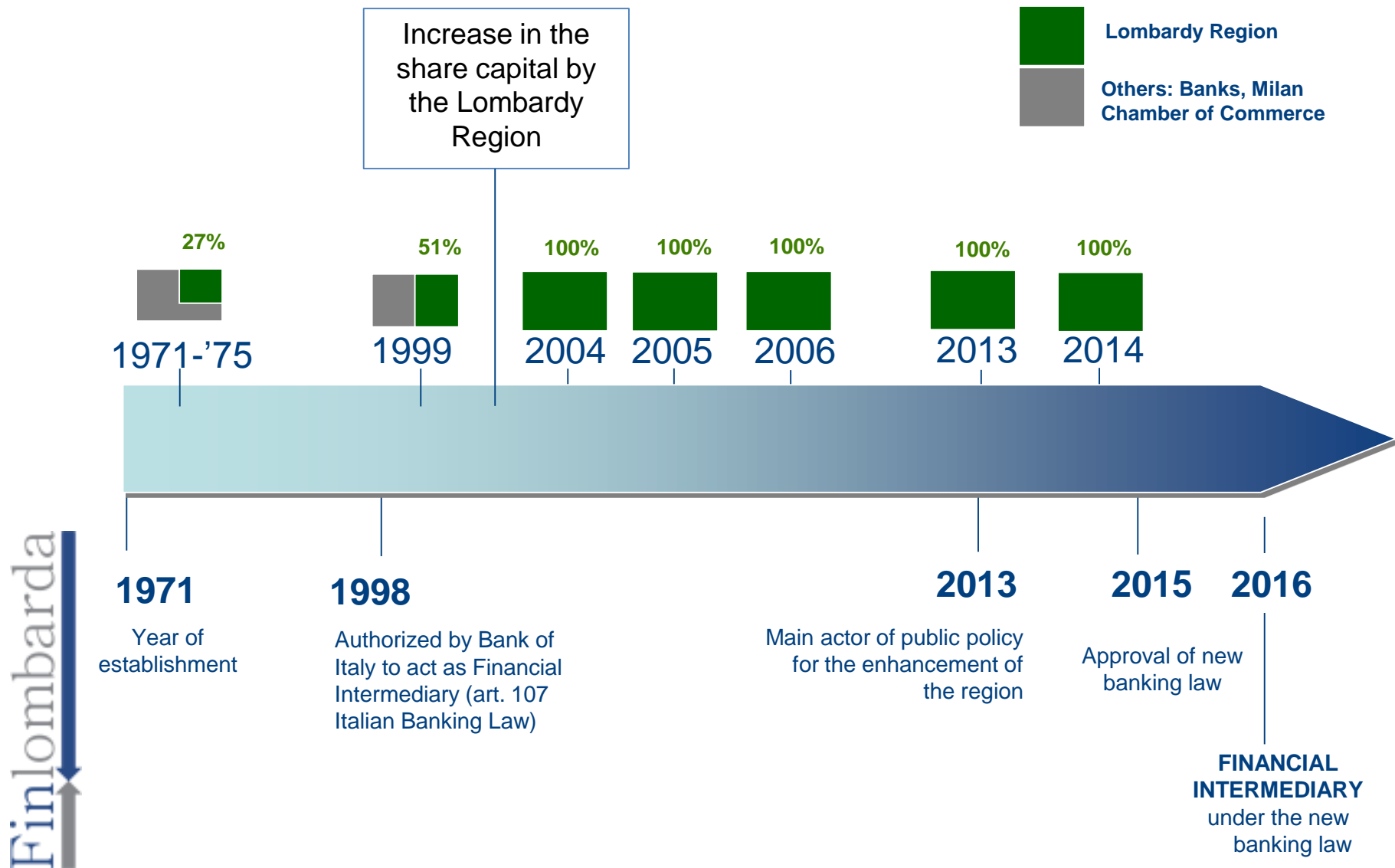
# Finlombarda's profile



- ❑ **Financial Institution of Lombardy Region** for the social, economic and territorial development
- ❑ Employees: **173** (2016)
- ❑ Equity: **258.6 M€**
- ❑ Total assets: **395.5 M€** (31.12.2016)
- ❑ Total asset under management for Regional funds: **1,665.7 M€** (31.12.2016)
- ❑ Net profit (2016): **1.6 M€**
- ❑ Rating: BBB- (May 2017)

- *Finlombarda is the **most relevant Italian regional public financial institution**. It is in charge of fostering growth and development through the implementation of regional policies.*
- *As Financial Intermediary it is **subject to the Bank of Italy's oversight** and reporting requirements.*

# Finlombarda's legal status evolution



# Finlombarda's range of activities and final recipients

Promotion of the regional socio-economic development

- ❑ Financial Intermediation
- ❑ Regional and EU Funds Management
- ❑ Services for Lombardy Region
- ❑ Treasury Management

## Final Recipients

SMEs

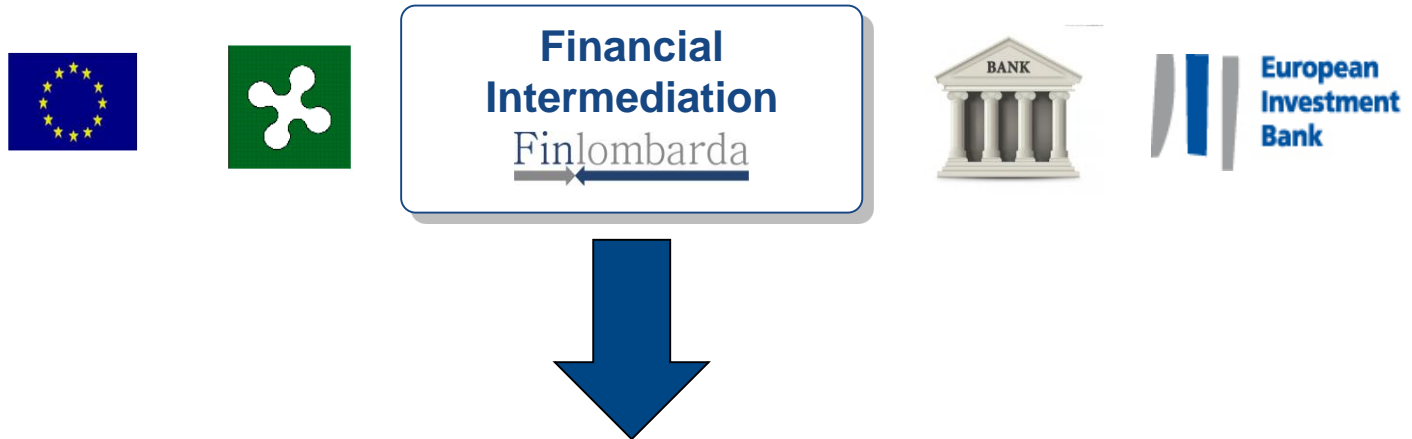
Mid Caps

Start-ups

Research  
Centres

Local Governments  
and Municipalities  
headquartered in  
Lombardy

# Financial Intermediation (=own resources)

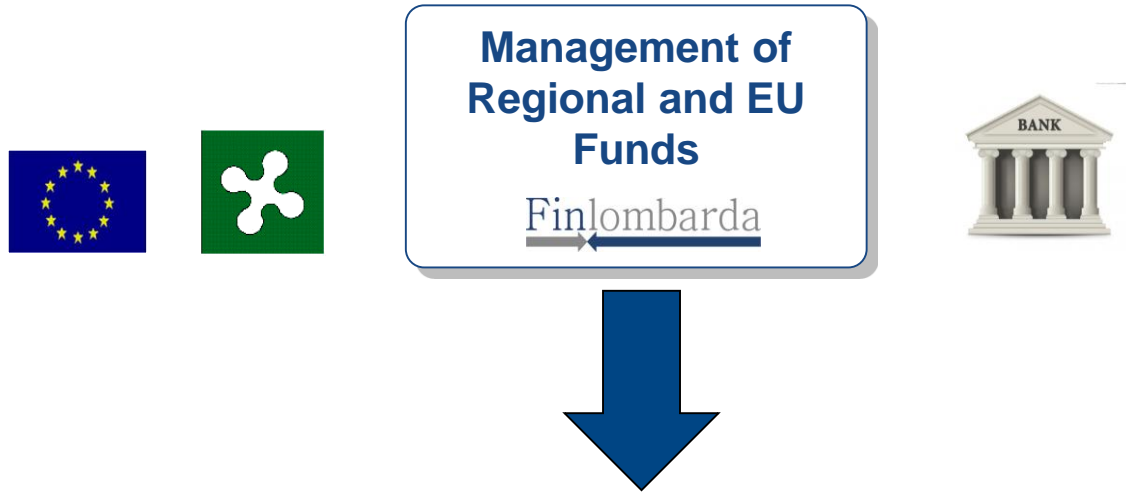


- ☐ Loans, guarantees, bonds
- ☐ Targeting on SMEs and Mid Caps and also on Projects for Infrastructure and Public Utilities
- ☐ Pricing at Market conditions (not Public Aid)
- ☐ Most part of its current product portfolio is represented by products that combine own resources with Regional or EU grants

**For the major product (“CREDITO ADESSO”), Finlombarda received 4,544 requests of contribution.**

**Up to 31.12.2016 the beneficiaries was 1,543 for a total amount of 350.5 M€ for financing.**

# Regional and EU Funds Management



- ❑ Financial Instruments Management with Regional and European Funds (direct loans, co-financing with private banks, guarantees, combined) and Regional grants
- ❑ Final recipients defined by Lombardy Region, targeting on market failure
- ❑ Monitoring and financial controls

**In the last year (2016), Finlombarda has disbursed to final recipient 133.9 M€, of which 68.4 M€ as financing and the 65.5 M€ as grants.**

# Financial Intermediation and Regional and EU Funds Management: a comparison

## Financial Intermediation

- The credit policies are defined by Finlombarda
- Finlombarda acts as a Financial Intermediary bearing the credit risk on its balance sheet
- Pricing is defined on market basis taking into account costs and credit risk

## Finlombarda financing activity

## Regional and EU Funds Management

- The credit policies are strictly defined on the bases of the Regional Legal Framework
- The analysis is based on the calculation of certain financial ratios defined by the Region aimed at quantifying the minimum score for granting a financing
- Pricing is based on the legal framework and Lombardy Region decisions

*Finlombarda strategy is based on a strong increase of financial intermediation within the next two years*

# Focus: Financial Intermediation

## Main financing products for enterprises currently available

### «CREDITO ADESSO»

#### COMMERCIAL DEVELOPMENT

- ✓ Loan in co-financing (40% Finlombarda) from 24 to 36 months
- ✓ Subsidized interests up to 2%



companies < 3,000 employees



18 thousand - 1.5 million euros

Available resources:  
150 million euros

### «LINEA INNOVAZIONE»

#### INVESTMENTS IN INNOVATION OF PRODUCT OR PROCESS

- ✓ Loan in co-financing (50% Finlombarda) from 3 to 7 years
- ✓ Subsidized interests up to 2.5%



companies < 3,000 employees



300 thousand - 7 million euros

Available resources:  
100 million euros

### «AL VIA»

#### INVESTMENTS FOR BUSINESS DEVELOPMENT

- ✓ Loan in co-financing (50% Finlombarda) from 3 to 6 years
- ✓ 70% guarantee on financing
- ✓ Contribution up to 15%



SMEs



50 thousand - 2,8 million euros

Available resources:  
240 million euros

### MINIBOND

#### DEVELOPMENT PROGRAMS

- ✓ Subscription (up to 40% Finlombarda) of bonds from 3 to 7 years
- ✓ Voucher for reducing the cost up to 30 thousand euros



all companies



1 - 20 million euros

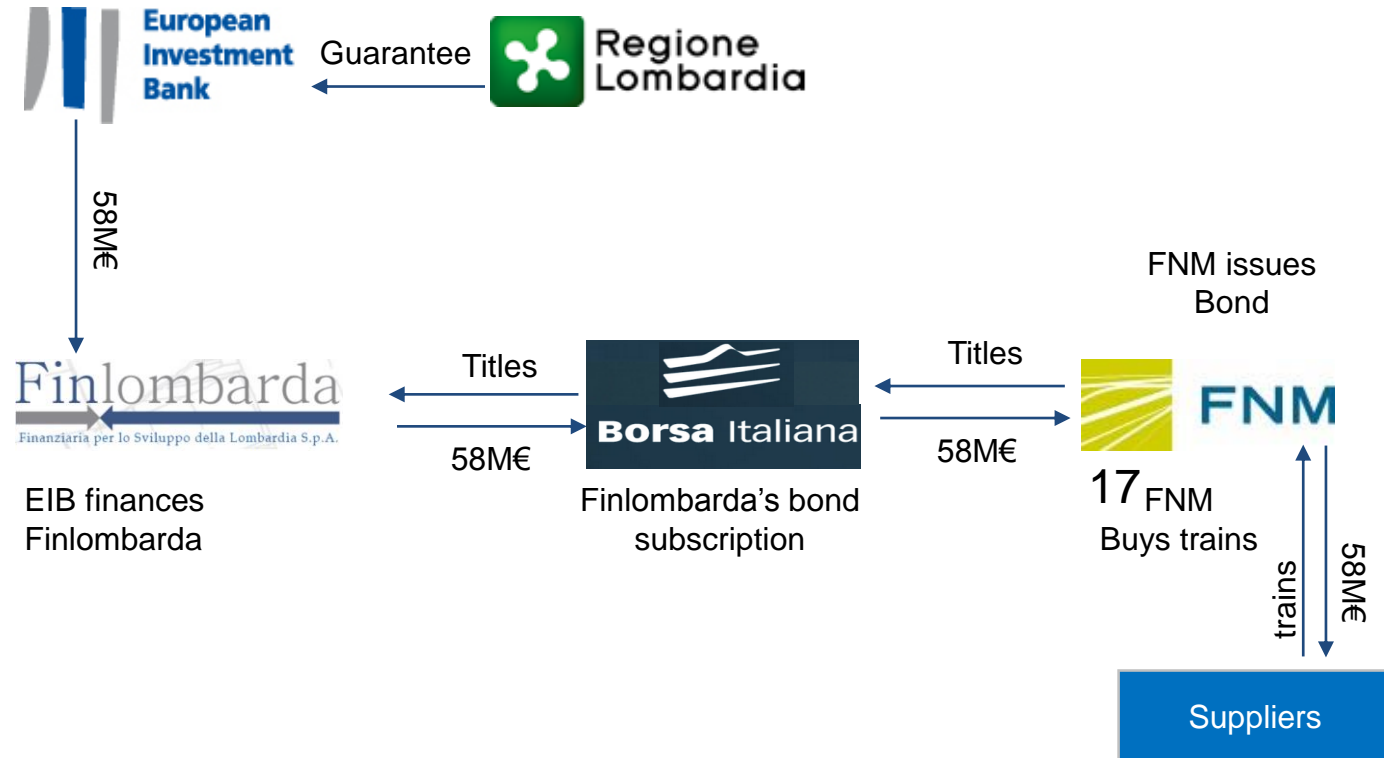
Available resources:  
300 million euros

*All products are addressed to companies operating in Lombardy (not necessarily headquarters in Lombardy)*



# Focus: Financial Intermediation

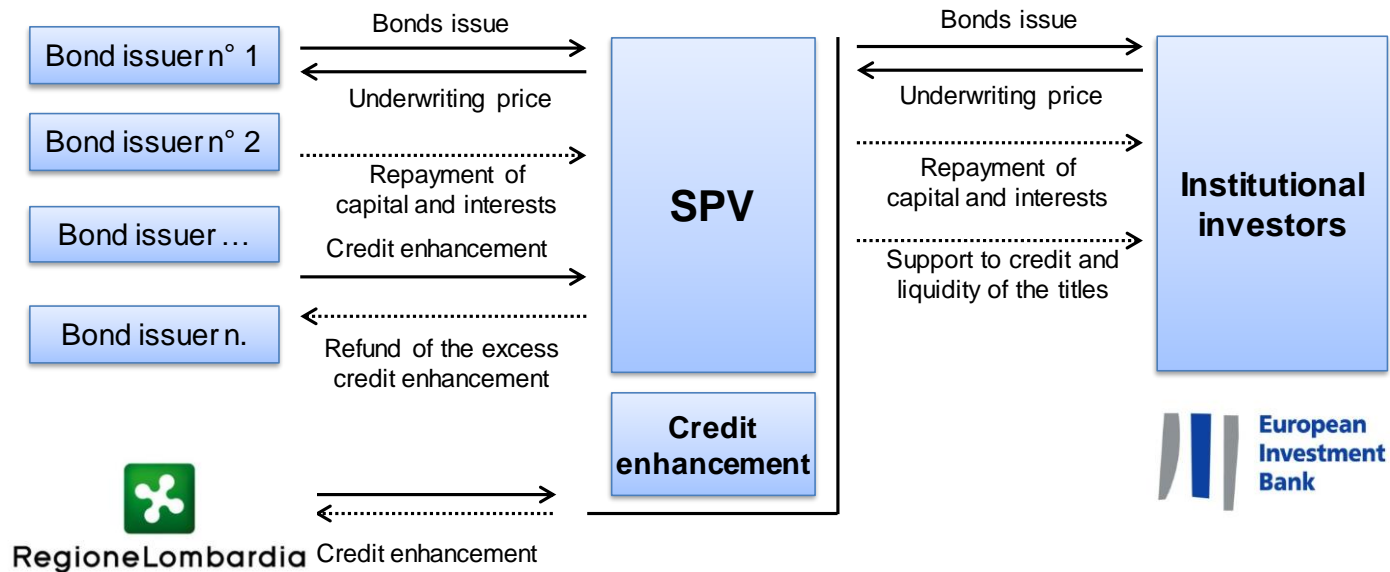
## Bond Ferrovie Nord Milano



- In 2015, Finlombarda started to finance infrastructure sector on its balance sheet.
- Ferrovie Nord Milan (FNM) needed financial resources for a total amount € 164 million for the renewal of its stock of trains.
- FNM subscribed a bond for 58 M€ acquired by Finlombarda (thanks to BEI funding) on the ExtraMOT Pro market.
- Finlombarda acquired FNM bond at the market conditions (defined on the basis of the market trend at the time of issue): Euribor + 150 bps.

# Focus: Financial Intermediation

## Financing hydro network investments



- Finlombarda is planning to finance the regional water private sector through a Collateralized Debt Obligation issue on a 15 years term impossible to be found from Italian commercial banking system
- Bonds will be subscribed by institutional investors including Finlombarda, EIB, and the national CdP and on a smaller scale placed in the capital market at market conditions
- Investors will rely on a regional guarantee up to 10 million euros and other form of credit enhancement
- The bonds will finance water investments as aqueducts, sanitation, water networks
- Institutional investor financing will be made below market conditions

# Focus: Financial Intermediation Funding

## EIB Funding

- Finlombarda has signed two funding agreements with the EIB.
- Last one was signed in September 2015 and amounts to 242 million euros. This funding is intended to finance:
  - at least 70% of SMEs and Mid Caps projects;
  - for the remaining 30% other initiatives promoted by public and private entities in strategic sectors for regional development.
- Lombardy Region has signed a guarantee on this funding in favour of the EIB.

## EMTN Program

- Finlombarda has signed with eight dealers an EMTN (European Medium Term Notes) program, as bond issuer up to 200 million euros.
- The Program, rated BBB (long-term rating) and F2 (short term rating) by Fitch, is quoted on the Luxembourg Stock Exchange.
- Banca Imi supported Finlombarda in preparing the Prospectus containing all aspects of the Program's structuring as global arranger.
- The first tranche of 50 M€ will be issued by the end of September 2017.

# Examples of products on Regional and European Funds

## «FRIM FESR 2020»

### INVESTMENTS IN RESEARCH

- ✓ Direct loan (100% Public resources) from 3 to 7 years
- ✓ Fixed rate financing of 0,5%



SMEs



Up to 1 million euros

Available resources:  
30 million euros

## «Research for aggregation»

### INVESTMENTS IN RESEARCH

- ✓ Direct loan (100% Public resources) up to 6 years combined with grant
- ✓ No interests on financing



PARTNERSHIPS



Up to 2 million euros

Available resources:  
120 million euros

## «INTRAPRENDO»

### INVESTMENTS FOR START-UP

- ✓ Direct loan (90% of eligible costs) up to 7 years combined with grant (10% of eligible costs)
- ✓ No interests on financing



START UPs and  
freelancers



Up to 65 thousand  
euros

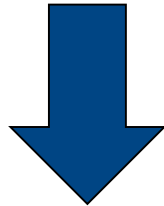
Available resources:  
15 million euros

# Services for Lombardy Region and treasury management



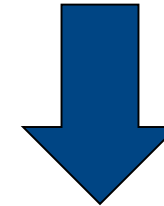
Finlombarda

## Services for Lombardy Region



- ❑ Services provided to regional departments and other “in house” companies.
- ❑ Main projects are:
  - ❑ Healthcare Fund (centralized payments to suppliers of regional healthcare system)
  - ❑ Financial advisory and support for the implementation of Regional policies regarding public utilities, social housing, PPPs.

## Treasury management



- ❑ Treasury Management is related either to own liquidity or to third parties liquidity (Lombardy Region and other controlled companies).

# Final findings

Today, Finlombarda is a company with a double “nature”, being at the same time an "in house" company of Lombardy Region and a Financial Intermediary. These two natures implies two very different and strict regulatory framework and their co-existence is a source of high complexity.

## Financial Intermediary



- It is able to provide additional resources to its territory stakeholder
- It can help «good companies» (no market failure) to grow



- It is supervised by Banca d'Italia and it is subject to a number of rules and fulfillments (provided for by the banking law) which implies costs and complexity
- It has to identify and implement an appropriate risk management policy

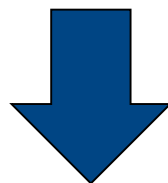
## In house company



- Very limited business risk
- It can acts in sectors where private banks can't operate



- It must be compliant to State Aid EC rules and is subject to strict controls by the Region
- It has to comply with many rules and fulfillments as other public administrations (in particular rules concerning public spending cuts
- Uncertain national legal framework)



To implement a Financial Regional Company, it's necessary to understand the complexity of national legal framework and the real local stakeholder needs/opportunity.

**Thank you for your attention!**