



FINLOMBARDA S.p.A. **The Public Financial Institution of Lombardy Region**

Pamplona, 22th September 2017



RegioneLombardia

Finlombarda

Index

1. About public banking in Italy
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.

Index

1. About public banking in Italy

2. Public financial institutions in Italy:

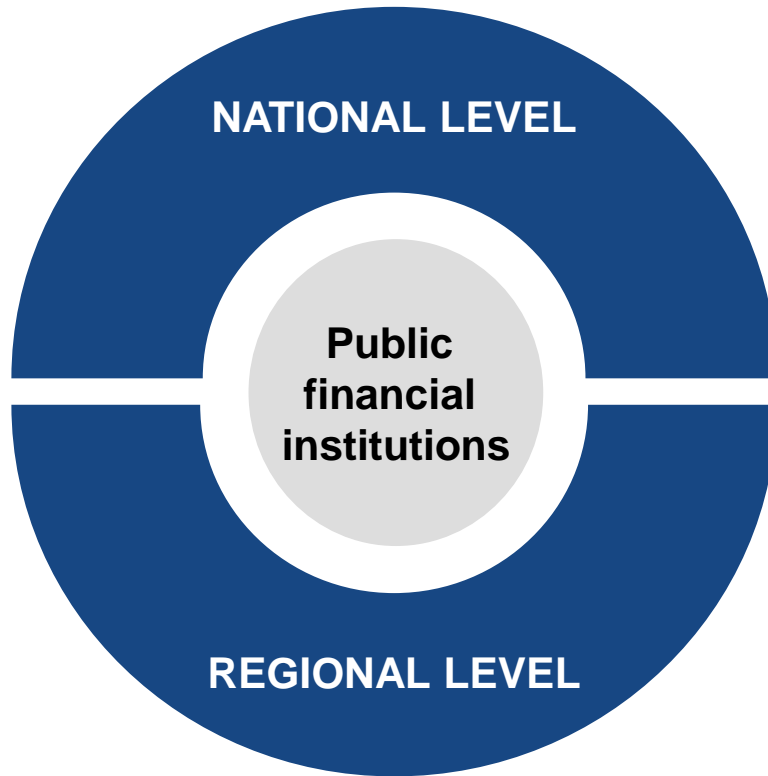
a) National level

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

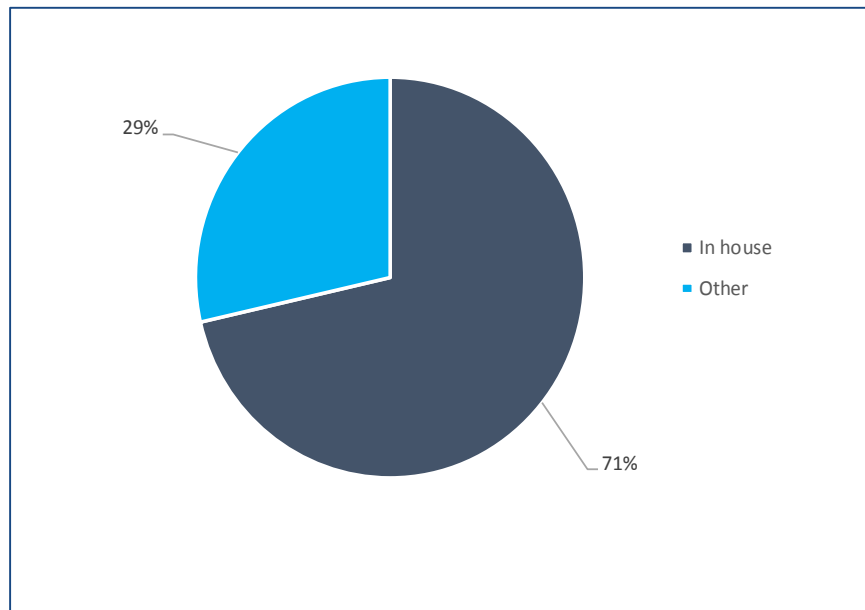


- Legal form: Limited company
- Public control: indirect and by majority (SACE is the majority shareholder)
- Range of activities: financing for internationalization, export credit and equity

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.

Index

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



Lombardy Region's contest



- ❑ **GDP:** 331 billion Euros (21% of national GDP and 5th across Europe)
- ❑ **Population:** 10 million inhabitants (16.5% of national population and 4th 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

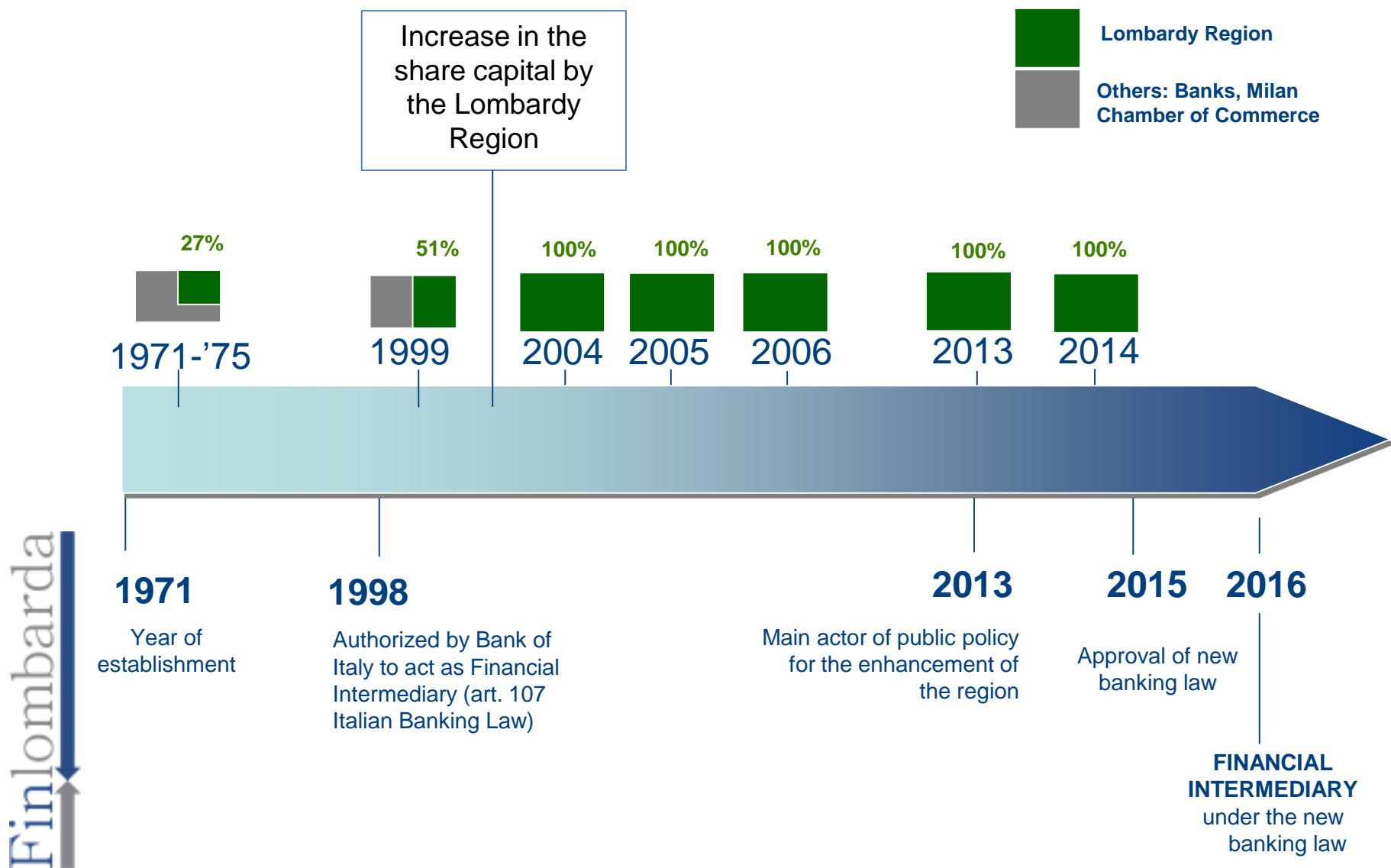
Finlombarda's profile



- ❑ **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

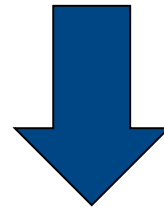
Local Governments
and Municipalities
headquartered in
Lombardy

Finlombarda

Financial Intermediation (=own resources)



**Financial
Intermediation**
Finlombarda

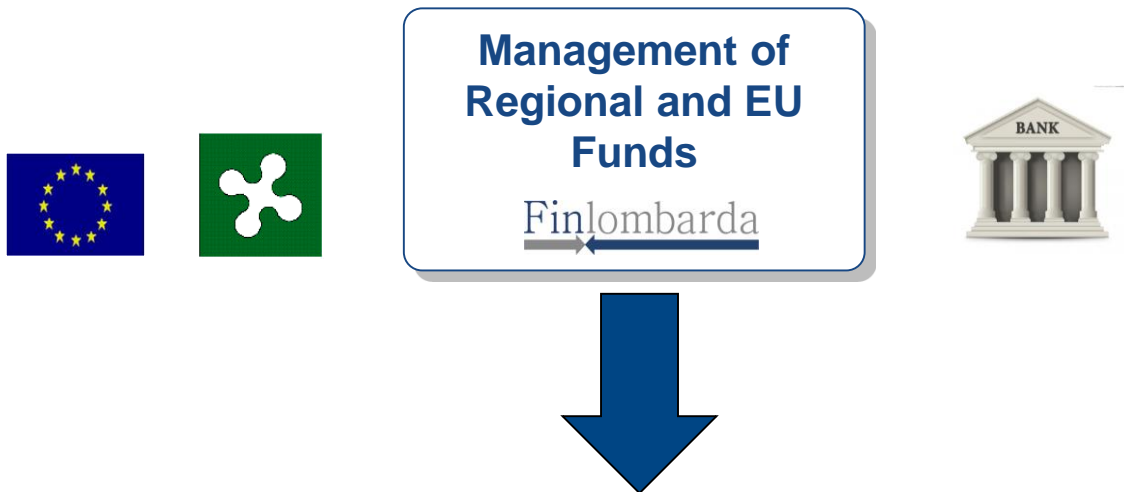


- Loans, guarantees, bonds
- Targeting on SMEs and Mid Caps and also on Projects for Infrastructure and Public Utilities
- Pricing at Market conditions (not Public Aid)
- Most part of its current product portfolio is represented by products that combine own resources with Regional or EU grants

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

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



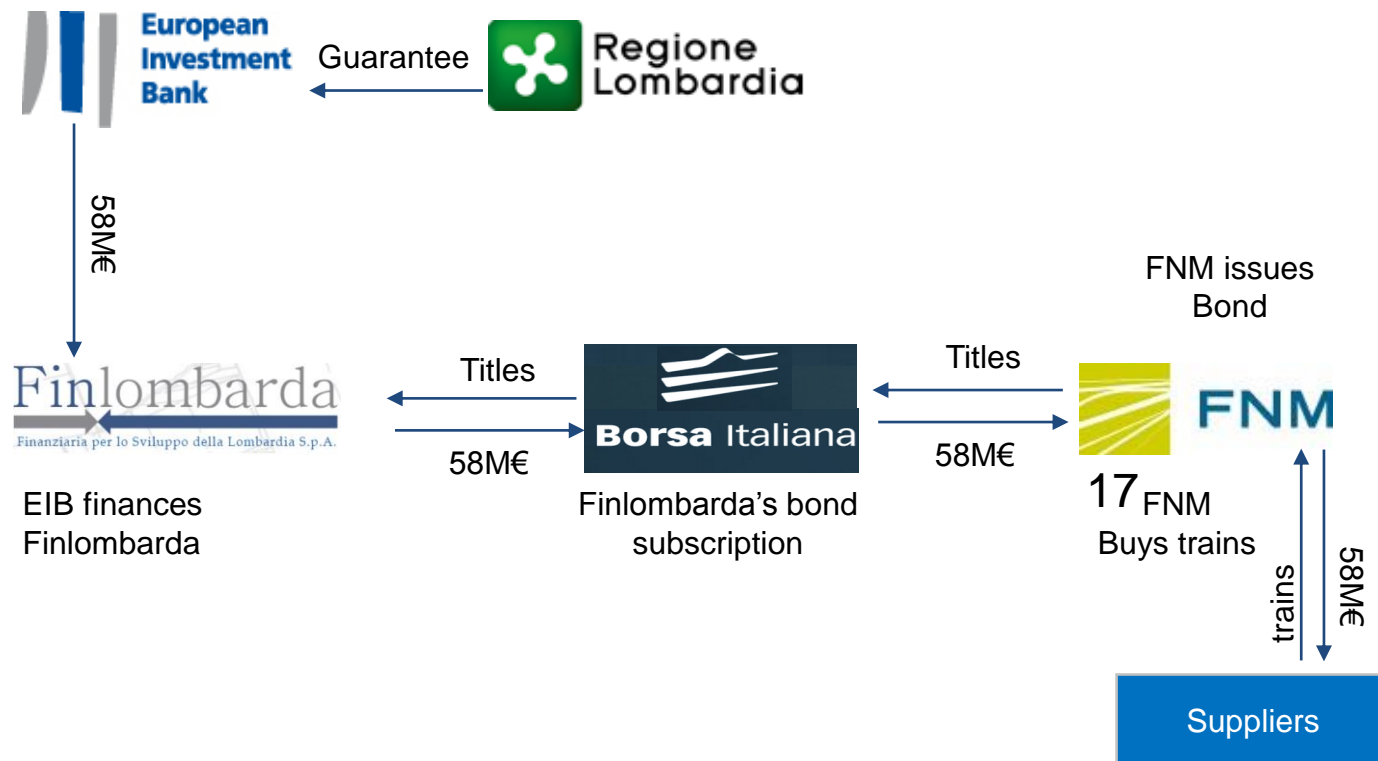
1 - 20 million euros

Available resources:
300 million euros

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

Focus: Financial Intermediation

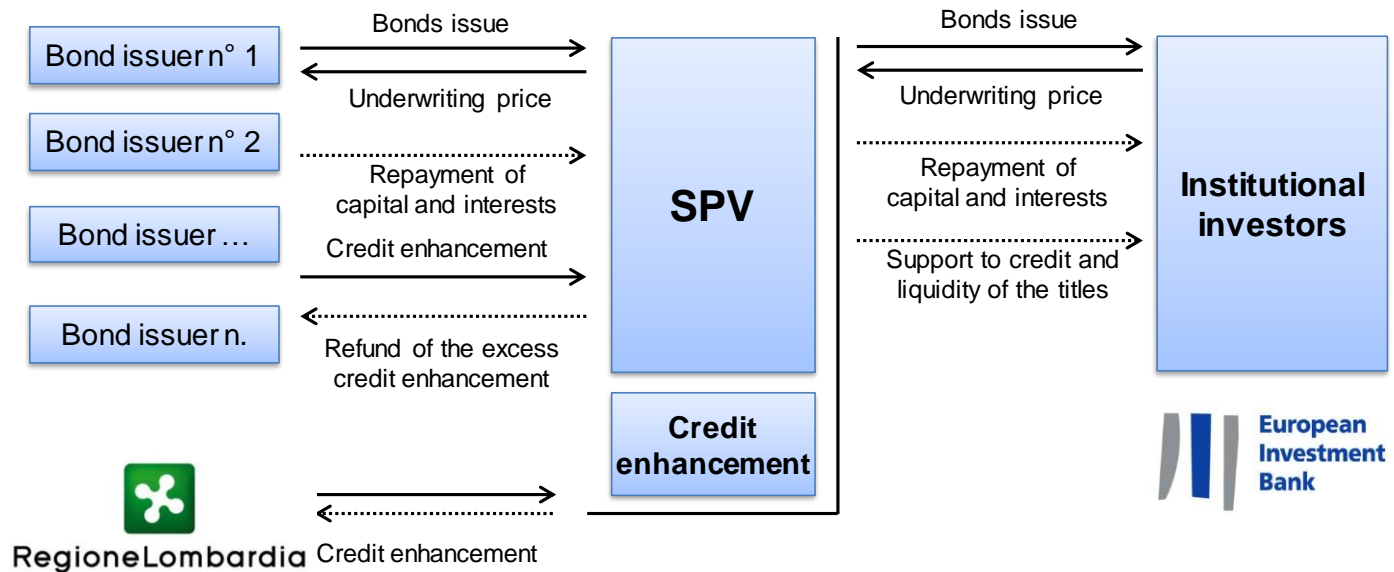
Bond Ferrovie Nord Milano



- 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

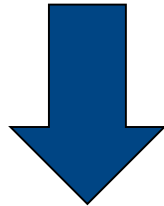
«FRIM FESR 2020»	«Research for aggregation»	«INTRAPRENDO»
<p>INVESTMENTS IN RESEARCH</p>	<p>INVESTMENTS IN RESEARCH</p>	<p>INVESTMENTS FOR START-UP</p>
<ul style="list-style-type: none">✓ Direct loan (100% Public resources) from 3 to 7 years✓ Fixed rate financing of 0,5%	<ul style="list-style-type: none">✓ Direct loan (100% Public resources) up to 6 years combined with grant✓ No interests on financing	<ul style="list-style-type: none">✓ Direct loan (90% of eligible costs) up to 7 years combined with grant (10% of eligible costs)✓ No interests on financing
<p> SMEs</p>	<p> PARTNERSHIPS</p>	<p> START UPs and freelancers</p>
<p> Up to 1 million euros</p>	<p> Up to 2 million euros</p>	<p> Up to 65 thousand euros</p>
<p>Available resources: 30 million euros</p>	<p>Available resources: 120 million euros</p>	<p>Available resources: 15 million euros</p>

Services for Lombardy Region and treasury management



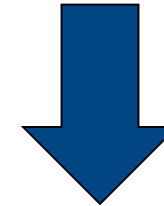
Finlombarda

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

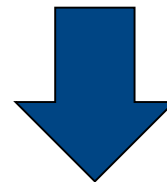
Today, Finlombarda is a company with a double “nature”, being at the same time an "in house" company of Lombardy Region and a Financial Intermediary. These two natures implies two very different and strict regulatory framework and their co-existence is a source of high complexity.

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!