

## **Anna Maria Tarantola: Cooperative banks and competition – local vocation and governance issues**

Address by Ms Anna Maria Tarantola, Deputy Director General of the Bank of Italy, at the Istituto Centrale delle Banche Popolari – Associazione Nazionale delle Banche Popolari “Cooperative Banks: Italian and European Aspects”, Taormina, 27 February 2009.

\* \* \*

### **Introduction**

I would like to thank the organizers for inviting the Bank of Italy to take part in today’s meeting in honour of Professor Giuseppe Muré, a man of great distinction, who combined an academic career with his role as representative of the banking profession, offering a constructive contribution to the complex issues surrounding the business of banking.

The role of local banks was a theme that Professor Muré examined on many occasions in the course of work on a broad range of topics, and he was always passionately convinced of their valuable role in supporting SMEs. At a meeting on “Dimensions and Processes of Growth” some twenty years ago, he stressed “the competitive advantage of a bank with a local dimension, which as we all know can adhere to the economic fabric of its place of business” and emphasized that this fundamental resource should not be wasted – indeed, that local banks should preserve their local identity.<sup>1</sup>

The value of the business model adopted by Italy’s cooperative “popular banks” (*banche popolari*) is a very topical issue. It is at the centre of a lively debate concerning the transformations that the category of cooperative banks has undergone, as well as the economic and productive slowdown, both of which draw attention to the relationship between bank and local area.

I will begin my talk by looking at how the *banche popolari* have evolved in the Italian system and how this fits into the European context of cooperative lending before examining their role in supporting the economy and analyzing their main technical characteristics. Finally, I will look at their particular system of governance and consider prospective regulatory developments.

In general, the *banche popolari* have responded to increasing competitive pressure by reviewing and revising their strategies. Large-scale banks have been created, with diversified production, complex group structures, and establishments abroad as well as at home. Small banks of limited operational complexity continue to exist alongside them.

While more and more marked differences have emerged within the category, regulations have remained largely the same. We must consider whether this framework is still appropriate to the changed needs of banks, investors and clients and to the aims of the supervisory authority.

### **1. The role of *banche popolari* in the development of Italy’s banking system**

Italy’s banking system has undergone profound changes in the last decade: in size, in manner of operation and in organizational structure. Rapid progress in information and communication technology, financial innovation, growing international openness, and changes in demand for banking and financial services have all led to stronger competition

---

<sup>1</sup> G. Muré, “Dimensioni e processi di crescita”, in *Fusioni e acquisizioni delle aziende di credito*, Proceedings of the conference held in Modena, 13-14 April 1989.

and prompted a far-reaching process of concentration among banking institutions and a rationalization of their productive structures.

Mergers have led to an increase in the average size of banks, more complex and structured forms of group organization, and a diversification of customer relation policies and methods. The number of banks has decreased, but the enormous growth of branch networks has kept competition strong in local banking markets.

Closer financial integration in Europe has encouraged the market to open up to EU banks, particularly in recent years, and Italian banks to venture abroad.

In a rapidly evolving sector, the cooperative banks, for their part, have proved extremely dynamic while evolving in a variety of directions, depending on their different initial situations and the opportunities offered by their local economies.

One segment of the cooperative banking sector has consolidated its position in its chosen markets, focusing on internal growth and successfully enacting the role of local bank with close connections with the fabric of small and medium-sized enterprises. The largest *banche popolari*, on the other hand, have concentrated on external growth, carrying out broad merger programmes, both within their category and outside, by acquiring former savings banks, local banks set up in the form of public limited companies, *banche di credito cooperativo* (mutual banks) and specialized banks. This has led to the formation of medium and large-sized groups that operate beyond regional borders. In some cases growth has led to changes in ownership structure – and greater market openness – as well as entry into new lines of business.

Both growth paths have greatly reinforced the category of cooperative banks as a whole. In the last decade, despite a reduction from 56 to 38 in the number of independent *banche popolari* and groups headed by *banche popolari*, their market share in Italy has risen from 16.8 to 21.1 per cent of total bank assets, from 15.9 to 21.6 per cent of lending to residents and from 21.1 to 27.3 per cent of branches.

There has been a parallel sharpening of differences within the category. In 1998 the five largest groups headed by *banche popolari* ran an average of 526 branches, while *banche popolari* not belonging to groups had 16 each; today those figures are respectively 1,340 and 23. The average value of the top five groups' total assets was ten times that of the other *banche popolari*, a ratio that is now close to 25:1. Of the 16 banking groups headed by *banche popolari*, two are among the top five in Italy in terms of total assets and eight are listed on the stock exchange or have at least one listed member.

The leading groups have adopted a more structured organization, for the most part of the multifunctional federal type.

## **2. Cooperative banks in the European context**

Cooperative banks are a key component of the cooperative movement in the credit sector, which originated in Europe in the nineteenth century as a response to the problems that small urban and rural businesses had in obtaining credit. From the very first credit unions promoted by Schulze-Delitzsch and Raiffeisen, they adopted an organizational model based on democratic governance and mutualism. In time, this model evolved and differentiated into a multiplicity of institutions with characteristics reflecting the needs of cooperative members on the one hand and the specificities of national legislative frameworks on the other.

Today, the cooperative credit sector in Europe embraces systems that are not entirely uniform in terms of legal set-up, size and organization. Some systems are strongly integrated. This is the case in Germany, where the *Volksbanken* and *Raiffeisenbanken* are joined in a single trade association and have common central structures (DZ Bank), and in the Netherlands, whose cooperative banks are gathered together in the Rabobank group, one of the country's largest banking groups. Other systems are more highly diversified, as in

France, whose cooperative system includes three of the country's five largest banking groups (Crédit Agricole, Caisse d'Épargne and Crédit Mutuel) plus the Banques Populaires group consisting of a federal bank and 20 regional banks with more than 3,000 branches.

Cooperative banks' ability to adapt and to grow in highly diverse economic and institutional environments has made them a substantial part of the banking industry in many European countries. Overall, the cooperative banking sector in the European Union counts more than 4,000 local and regional banks, 62,000 branches and 49 million members, with a significant incidence in their national markets.<sup>2</sup> Although comparing international data involves some difficulty, we can put cooperative banks' market shares in terms of number of branches at about 60 per cent in France, 50 per cent in Austria, 40 per cent in Germany and the Netherlands, and 10 per cent in Spain and Portugal.<sup>3</sup> In Italy, the figure is 39 per cent for the entire cooperative banking sector.

In the other European countries, cooperative banks have developed mainly in a context, including the legal and institutional framework, in which central organizations play a driving role. In Italy, by contrast, the movement has been marked by greater differentiation between mutual banks (*banche di credito cooperativo*) and popular banks (*banche popolari*), with less integration and autonomous paths of development being preferred.

Each model has its strengths and weaknesses. Close coordination at central level can help overcome constraints and inefficiencies due to the small size of individual cooperative banks. On the other hand, in banking as in other industries, entrepreneurial autonomy fosters competition, the quest for innovative solutions, and the ability to adapt to the needs of local economies.

### 3. Support for the economy

The presence of a varied range of intermediaries constitutes an asset for the Italian banking system and has proven invaluable for the country's economic growth. In particular, thanks to the social and solidaristic concerns inherent in their corporate model, Italy's cooperative banks not only assist categories of customers at risk of exclusion from the credit market and thus vulnerable to usury, but have also actively sustained specific segments of the market, such as small and medium-sized enterprises. It is on the basis of these premises that Italian legislation has always safeguarded the particular characteristics of cooperative banks in their various forms.

*Banche popolari* are the most important expression of Italy's cooperative banks in terms of assets. A particularly topical debate today concerns the effects that the rapid expansion of some of these *banche popolari* may have had on their inclination to support local economies – in particular, the maintenance of close relationships with their reference customers (households, professionals, artisans, SMEs) – and on management's incentives.

The empirical evidence testifies to their close ties with local economies and their role in financing business initiatives.<sup>4</sup> These are reflected in the composition of their lending, with 66 per cent of the total going to firms, against 59 per cent for other banks. Comparing the figures for the five largest banking groups headed by *banche popolari* with those for major

---

<sup>2</sup> The data are from the European Association of Co-operative Banks, 2007.

<sup>3</sup> P. Bongini and G. Ferri, "Governance, Diversification and Performance. The Case of Italy's *Banche Popolari*", paper presented at the conference *Corporate Governance in Financial Institutions*, organized by SUERF and the Central Bank of Cyprus, Nicosia, 2007.

<sup>4</sup> G. Ferri, G. Michetti, C. Pacioni and C. Tondelli, "Banche popolari tra crescita e localismo" in R. de Bruyn and G. Ferri (eds.), *Le banche popolari nel localismo dell'economia italiana*, Edicred, Rome, 2005.

and large banks of comparable size, the gap widens to 10 percentage points (65 against 55 per cent).

Strong roots in local economies are a prerequisite for mitigating the difficulties of access to credit even in hard times like these. Excluding bad debts and repos, lending to residents by *banche popolari* and other banks belonging to their groups grew by 6.8 per cent in 2008, compared with 5.6 per cent for the banking system as a whole. The growth in lending by the five largest banking groups headed by *banche popolari* was in line with that of the other major and large banks. By contrast, lending growth was much livelier for the smaller *banche popolari* (13.9 per cent), also by comparison with other banks of comparable size and with similar operational characteristics (7.2 per cent) including the mutual banks (10.4 per cent).

The gap between the growth rates of large and small *banche popolari* is explained in part by the difference in the intensity of their relationship with firms and local communities, since this tends to weaken progressively the more banks grow, open up to the market and expand their range of operations. When there is a significant development of business relationships and areas of activity, including abroad, there can also be a weakening of the control exerted in the form of social pressure and in other ways by the local community (customers and shareholders at one and the same time), so that management's incentives are less closely aligned with the interests of the community where the bank was originally established.

The support for the economy provided by *banche popolari*, especially the smaller ones, is a major strength of Italy's banking system.

However, there are risks that cannot be ignored. An examination of the banking relationships of a sample of nearly 50,000 firms surveyed by the Company Accounts Data Service shows that the banks that stepped up their lending most sharply in the last year did so in part by significantly increasing their exposure to financially fragile firms. The necessary provision of support to businesses must be accompanied by an objective assessment of the potential of the projects undertaken and the medium-term prospects. Careful and stringent risk management is a sine qua non for credit to continue to flow to where it can safeguard valid business initiatives and contribute to the recovery of productive activity.

#### 4. Technical indicators

The *banche popolari*'s technical indicators – like the main balance-sheet aggregates analyzed above – point to quite considerable diversification in terms of size and market.

**Capital adequacy ratios** show no evidence of any particular difficulty overall. The solvency ratio is in line with that of the banking system as a whole; it is higher for the smaller *banche popolari* than for the larger, listed ones.

**Profitability** reflects these institutions' retail specialization, involving broad territorial coverage through a dense branch network. The ratio of operating costs to gross income, which can serve as a proxy for operating efficiency, was 63.8 per cent in June 2008, about one percentage point higher than for banks incorporated as public limited companies. This indicator improves with the size of the bank: it is better for the listed than for the minor banks (63.1 as against 67.9 per cent). ROE is lower for *banche popolari* than for public limited banks (8 and 10 per cent respectively), and again differs within the cooperative group (8.1 per cent for listed and 7.5 per cent for unlisted institutions). Many cooperative banks, like the others, recorded significantly reduced profits in the first three quarters of 2008, as a result of the financial turmoil.

**Loan quality** is now showing serious effects of the recession, as in the banking system as a whole. The non-performing portion of the cooperative banks' business loans rose by nearly half in 2008 to 1.9 per cent, compared with 1.3 per cent at the end of 2007.

The default rate is rising mostly among the smaller and medium-sized *banche popolari* and those located in the South.

It is hard to compare the technical situation of cooperative banks in Italy and in the other European countries where they play a significant role, as the data are scanty and lacking in uniformity. Table 6 gives some figures; all in all, there does not appear to be any great difference between the state of Italian and other European cooperative banks.

Some **liquidity** problems emerged in conjunction with the tensions in the interbank market. The easing of the strains, the issue of new securities that can be posted as collateral (mainly through self-securitizations), and the Bank of Italy's emphatic call for the adoption of more sophisticated risk management and liquidity management systems all contributed to a broad improvement in the liquidity profile. Steps still need to be taken to develop sound cash management strategies and to reinforce the organizational machinery, so as to achieve integrated risk management.

There are some weak points in **organization**, according to the Bank of Italy's periodic examinations.

Most of the shortcomings involve the functioning of corporate bodies – compromised, in some instances, by an uneven distribution of tasks and by unsatisfactory internal debate, with repercussions on strategy and coordination – as well as the efficacy of management instruments, the detection and management of risks, and the scope and depth of audits.

Risk management – including operational, legal and reputational risks – has not always been adequate to the cooperative banks' size and complex business. This applies above all to the listed banks, which have been subjected in recent years to growing attention and pressure from the market, particularly as regards the effectiveness of their risk control process.

These anomalies are not generalized, however. The need for improvement is found above all where governance systems are not entirely efficient, with rigid, crystallized arrangements and insufficient control over management.

Even where they have not yet affected the other profiles, organizational inadequacies always indicate a latent, potential risk. As such, these failings are an important signal that should not be neglected, because they impinge sharply upon growth and competitiveness. Like capital adequacy, organizational adequacy is a safeguard, the precondition for sound and prudent management.

## 5. Governance

The governance of the cooperative banks has been the subject of lively debate in recent years, with strongly differing opinions and points of view. Fundamentally, the question is whether these institutions' traditional model of governance is still suitable today, capable of serving the needs of banks that have grown through mergers to considerable size, with an increasingly ramified ownership base and open to the capital markets.

The main points under debate have been relaxing the limits to individual equity shares, strengthening the role of institutional investors, extending proxy voting, and exploiting the cooperative nature of these intermediaries.

The cooperative banking model appears to be subject to strain above all among the larger, listed banks, where ownership that is open to the market and to institutional investors conflicts with rules that, though originally designed to preserve democratic participation, actually make it hard to contest control, limit the representation of the various shareholder components in corporate bodies, and discourage attendance at meetings.

On the other hand there is no denying the need to preserve intact the features, peculiar to *banche popolari*, that favour a development model oriented to sustaining the local community.

The proper balance must be struck between the need to preserve the specificity of cooperation and the need for the model of governance to correspond more closely to these

institutions' size and market orientation. Large and complex institutions, interested in non-traditional lines of business, should consider the adoption of a more open and dynamic structure of governance, so as to be able to respond promptly to changes in the business environment and seize new opportunities, design consistent, comprehensive strategies, and ensure effective leadership and coordination.

## 6. Regulation

The legal framework of the cooperative banks in the leading European countries has evolved with the development of the legal and economic context: in Spain there are extensive limits on holdings of capital, including by persons other than cooperative members; in Germany derogations are allowed, in certain circumstances, from the one-person-one-vote rule; in France multiple votes are permitted in proportion to the size of the contribution of capital, albeit within limits laid down in the bylaws.

The evolution of the law in Europe has also made it possible to keep up with the development of the competitive context, without significantly altering the essential characteristics of the cooperative model, which is still centred on a democratic structure and mutualistic goals.

In Italy the regulation of *banche popolari* is still marked by the rigorous interpretation of the one-person-one-vote rule, the stringent legal provisions governing the limits to holdings of capital (which can be waived only for some categories of institutional investors), the non-application of the solicitation and collection of proxies, by way of derogation from the general rules on listed companies.

A balanced and pragmatic evolution of the governance arrangements of *banche popolari*, in line with the specific features of each one, needs to be carefully assessed and can be implemented by means of self-regulation, especially bylaw innovations to make better and greater use of some options allowed by the applicable company law.

An opportunity can be grasped when defining the governance project provided for in the supervisory rules on the organization and corporate governance of banks, which the Bank of Italy issued in March 2008. I am referring to the recommendations aimed at ensuring adequate representation of the various components of the shareholder base and at activating mechanisms that will make it easier for members to take part in meetings. In fact, even in the latest shareholders' meetings (2008) the presence of members of listed *banche popolari* and proxies was very low, less than 5 per cent of those entitled to attend except in a few cases.

Suitable ways of giving effect to these legal principles include using slate voting systems for the election of minority directors and members of the board of auditors; introducing bylaws that reserve the appointment of a percentage of directors to one or more categories of members; broadening the scope for proxies to attend meetings (in compliance with the Civil Code); distance voting; and introducing bylaw clauses on the possibility of holding meetings in separate locations.

Other issues that are the focus of debate cannot be resolved through self-regulation and are the subject of various legislative initiatives: the broadening of the limits on holdings of capital; the assignment of a significant presence of institutional investors in corporate bodies; and the strengthening of participation mechanisms. One of the aims underlying these initiatives is to increase the instruments for strengthening the capital bases of the *banche popolari*.

In the present financial crisis it is essential to remove every potential obstacle to capital-raising measures that should prove necessary. The International Monetary Fund has recently

highlighted the risks inherent in the present rules on the limits on the possession of holdings of capital in *banche popolari*.<sup>5</sup>

Members' participation in meetings must be encouraged with instruments that do not distort the essence of the cooperative form and, at the same time, are in line with the regulatory evolution under way in Europe, partly as a result of the transposition of the directive on shareholders' rights.

## 7. Conclusions

Overall, the world of the cooperative banks is a vital one and able to support the financial needs of local areas. There are nonetheless broad differences within the category, in terms of size, type of business and openness to the market.

The model of governance, which overall has allowed these banks to respond to the solicitations of the competitive environment, may not be entirely suitable for large banks with a broad and highly diversified shareholder base.

For such institutions the traditional advantages in terms of customer information and relations deriving from closeness and mutual control performed by member clients are weakened. Without distorting the *banca popolare* model, organizational and governance arrangements need to be found that will compensate for the loss of that competitive advantage and be more consistent with the increased complexity of such banks' operations and their growth in size.

The financial market crisis that broke out in the summer of 2007 and grew worse after September 2008 has led governments, central banks and international institutions to attempt to analyze its causes and possible remedies, with a view to finding not only immediate solutions but also more far-reaching reforms of the financial markets, regulation and controls.

The most authoritative analyses conducted to date – the report of the Financial Stability Forum chaired by Governor Mario Draghi,<sup>6</sup> and the document recently produced by the Group of Thirty<sup>7</sup> – highlight the central role of governance arrangements and risk management systems for the stability of individual institutions and the financial system as a whole. The reforms that legislators and authorities are called upon to carry out, at various supranational and national levels, will be based on common rules and a greater role for organizational and corporate governance variables.

In this context the *banche popolari*, in the same way as the banking system as a whole, must grasp the opportunity to accelerate the process of adaptation of organizational arrangements and internal control systems, remove the problems and enhance these banks' role and growth potential.

The *banche popolari* should also play a proactive role and demonstrate the ability to evolve towards governance arrangements better suited to the demands of stakeholders and the needs of increasingly competitive markets, while maintaining the spirit of "participative democracy" that underlay the original regulatory framework.

This is one way to make it possible to perform the traditional function of the economy even more efficiently, something that is all the more necessary at times of crisis such as the present.

---

<sup>5</sup> International Monetary Fund, "ITALY, Staff Report for the 2008 Art. IV Consultation", 7 January 2009, p.18; Gutiérrez (2008).

<sup>6</sup> *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience, April 2008.*

<sup>7</sup> Group of Thirty, *Financial Reform. A Framework for Financial Stability*, January 2009.

## References

AGCM (2009), *Indagine conoscitiva: la corporate governance di banche e compagnie di assicurazioni*.

Banca d'Italia (2007), *Concluding Remarks*, May.

Berger A.N. and Udell G.F. (1995), "Relationship lending and lines of credit in small firm finance", *Journal of Business*, 68, 351-81.

Berger A.N. and Udell G.F. (2002), "Small business credit availability and relationship lending: the importance of bank organisational structure", *Economic Journal*, 112/477, F32-53.

Bongini P. and Ferri G. (2007), *Governance, Diversification and Performance: The Case of Italy's Banche Popolari*, paper given at the meeting on Corporate Governance in Financial Institutions, organized by SUERF and the Central Bank of Cyprus, Nicosia.

Bonaccorsi di Patti E. and Gobbi G. (2001), "The changing structure of local credit markets: are small businesses special?", *Journal of Banking and Finance*, 25, 2209-37.

Bonaccorsi di Patti E. and Gobbi G. (2003), "The effects of bank mergers on credit availability: evidence from corporate data", *Temi di discussione*, Banca d'Italia.

Cannari L. and Signorini L. F. (1997), *Community Links, Co-operative Rules, and the Economic Efficiency of Italy's Local Co-operative Banks*, Proceedings of the European Regional Science Association, 37th Congress, Rome, Italy.

Capriglione F. (2004), "Le banche cooperative ed il nuovo diritto societario. Problematiche e prospettive", in Leo S. Olschky (ed.), *Atti del Convegno di studio organizzato dalla Banca di Credito Cooperativo di Cambiano*, Florence, 16 October 2004.

Cau G., De Bonis R., Farabullini F. and Salvio A. (2005), "Rischiosità dei prestiti ed efficienza allocativa: ci sono differenze tra banche popolari e banche società per azioni?", in R. De Bruyn and G. Ferri (eds.), *Le Banche Popolari nel localismo dell'economia italiana* (Rome: Edicred).

Carosio G. (2008), *Tavola rotonda: Banche e territorio*, Centenary of Credito Valtellinese, Sondrio, 12 July 2008.

De Bonis R., Manzone R. and Trento S. (1994), "La proprietà cooperativa: teoria, storia e il caso delle banche popolari", *Temi di discussione*, 238, Banca d'Italia.

Draghi M. (2007), *Politica monetaria e sistema bancario*, Ordinary General Meeting of ABI, Rome, 11 July 2007.

Ferrarini G. (2006), *One Share-One Vote: A European Rule?*, Working Paper No. 7, Institute for Law and Finance, Johann Wolfgang Goethe-Frankfurt University.

Ferri G., Masciandaro D. and Messori M. (2000), "Governano societario ed efficienza delle banche locali di fronte all'unificazione dei mercati finanziari", in P. Alessandrini (ed.), *Il sistema finanziario italiano tra globalizzazione e localismo* (Bologna: il Mulino).

Ferri G., Michetti G., Pacioni C. and Tondelli C. (2005), "Banche popolari tra crescita e localismo" in R. de Bruyn and G. Ferri (eds.), *Le banche popolari nel localismo dell'economia italiana* (Rome: Edicred), 172-298.

Financial Stability Forum (2008), *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience*, April.

Fonteyne W. (2007), *Cooperative Banks in Europe – Policy Issues*, IMF Working Paper No. 07/159 (Washington: International Monetary Fund).

Fortis M. (ed.) (2008), *Banche territoriali, distretti e piccole e medie imprese* (Bologna: Il Mulino).



Girardone C., Molyneux P. and Gardener E. (2004), "Analyzing the Determinants of Bank Efficiency: The Case of Italian Banks", *Applied Economics*, 36, 215-27.

Group of Thirty (2009), *Financial Reform A Framework for Financial Stability*, January.

Gutiérrez E. (2008), *The Reform of Italian Cooperative Banks: Discussion of Proposals*, IMF Working Paper No. 08/74 (Washington: International Monetary Fund).

Hesse H. and Cihák M. (2007), *Cooperative Banks and Financial Stability*, IMF Working Paper No. 07/2 (Washington: International Monetary Fund).

Iannotta G., Nocera G. and Sironi A. (2006), *Ownership Structure, Risk and Performance in the European Banking Industry*, Università Commerciale "Luigi Bocconi," Institute of Financial Markets and Institutions.

International Monetary Fund, *ITALY, Staff Report for the 2008 Art. IV Consultation*, 7 January 2009, 18

ISAE (2007), "Accesso al Credito e Riforma delle Banche Popolari", extract from Rapporto ISAE, *Priorità nazionali. Ambiente Normativo, Imprese, Competitività*.

Mirone A. (2001), "Le banche popolari negli altri ordinamenti", in *AREL*, 1-2/2001, 25-30.

Petersen M.A. and Rajan R.G. (1994), "The benefits of lending relationships: evidence from small business data", *Journal of Finance*, XLIX/1, 3-37.

Pipitone M. (2005), La disciplina giuridica delle Banche Popolari e i modelli alternativi di banca, in R. De Bruyn and G. Ferri (eds.), *Le Banche Popolari nel localismo dell'economia italiana*, cit.

Pipitone M. (ed.) (2008), *Gli statuti delle banche popolari* (Rome: Edicred).

Signorini L.F. (ed.) (1999), "Lo sviluppo locale: un'indagine della Banca d'Italia sui distretti industriali", Donzelli, *Temi di Discussione*, 347, March 1999.

Turati G. (2004), *Are Cooperative Banks and Stock Banks Different Contracts? Empirical Evidence Using a Cost Function Approach*, Università degli Studi di Torino.

## Tables

**Table 1: Summary of data at 31 December 2008<sup>(1)</sup>**

	31/12/1998			31/12/2008		
	<i>popolari</i> <sup>(2)</sup>	system	% share	<i>popolari</i> <sup>(2)</sup>	system	% share
Banking groups	23	85		16	81	
<i>of which: including listed banks</i>				8	23	
<i>Banks belonging to groups</i>	51	115		57	142	
Banks not belonging to groups	33	721		22	578	
Total groups and independent banks	56	806	6.9%	38	659	5.8%
Total banks	107	921	11.6%	95	801	11.9%
Branches	5,545	26,286	21.1%	9,314	34,178	27.3%
Loans to residents (bn euros)	108	681	15.9%	329	1,523	21.6%
Deposits of residents (bn euros)	110	571	19.2%	240	951	25.2%
Total assets (bn euros) <sup>(3)</sup>	238	1,416	16.8%	676	3,196	21.1%

<sup>(1)</sup> Does not include Cassa depositi e prestiti SpA. – <sup>(2)</sup> "Popolari" include limited companies belonging to groups headed by *banche popolari*.

<sup>(3)</sup> Data for 2008 refer to end-November.

**Table 2: Branches**

	1998	2000	2002	2004	2006	2008
Limited banks and branches of foreign banks	17,968	19,147	19,880	20,098	20,774	20,756
<i>Banche popolari</i> <sup>(1)</sup>	5,545	6,113	6,871	7,388	7,808	9,314
<i>Banche di credito cooperativo</i>	2,773	2,954	3,192	3,465	3,753	4,108
Total	26,286	28,214	29,943	30,951	32,335	34,178
Limited banks and branches of foreign banks	68.4%	67.9%	66.4%	64.9%	64.2%	60.7%
<i>Banche popolari</i> <sup>(1)</sup>	21.1%	21.7%	22.9%	23.9%	24.1%	27.3%
<i>Banche di credito cooperativo</i>	10.5%	10.5%	10.7%	11.2%	11.6%	12.0%
Total	100%	100%	100%	100%	100%	100%

<sup>(1)</sup> "Popolari" include limited companies belonging to groups headed by *banche popolari*.

**Table 3: Breakdown of lending by sector**

	Popolari <sup>(1)</sup>			Other banks		
	Top 5 groups	Other	Total	Large <sup>(2)</sup>	Small and minor	Total
Firms	65.4%	68.8%	66.3%	55.5%	70.3%	59.1%
– of which: up to 20 employees	11.3%	15.6%	12.4%	8.8%	16.4%	10.6%
Consumer households	21.9%	24.2%	22.5%	24.6%	21.7%	23.9%
Other sectors	12.7%	7.0%	11.2%	19.9%	8.0%	17.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

<sup>(1)</sup> "Popolari" include limited companies belonging to groups headed by *banche popolari*. <sup>(2)</sup> Includes leading, large and medium-size banks following the Bank of Italy's system of classification.

**Table 4: Lending to firms by size of loan**

	S.p.A. + foreign branches	Popolari <sup>(1)</sup>			Credito coop.
			of which: listed	of which: unlisted	
0-5m	29.5%	39.0%	37.5%	47.8%	70.1%
5-25m	22.7%	26.5%	26.4%	27.4%	23.1%
> 25m	47.8%	34.4%	36.1%	24.8%	6.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Central Credit Register; data at 31/12/2008.

<sup>(1)</sup> "Popolari" include limited companies belonging to groups headed by *banche popolari*.

**Table 5: Twelve-month growth in lending<sup>(1)</sup>**

	Dec. 2008
Popolari <sup>(2)</sup>	6.8%
– of which: top 5 groups	4.5%
<i>other</i>	13.9%
Other banks <sup>(3)</sup>	5.4%
– of which: large	4.9%
<i>small and minor</i>	7.2%
– of which: BCC <sup>(3)</sup>	10.4%
Total	5.6%

<sup>(1)</sup> Percentage changes are net of reclassifications and securitizations. <sup>(2)</sup> "Popolari" include limited companies belonging to groups headed by *banche popolari*. <sup>(3)</sup> Includes leading, large and medium-size banks following the Bank of Italy's system of classification. <sup>(3)</sup> Banche di credito cooperativo.

**Table 6: Technical indicators – an international comparison**

	ROE	Cost/ income	Tier 1	Total C. Ratio	Substandard loans/total lending
<b>France</b>					
Crédit Agricole group	10.2%	68%	7.4%	9.6%	4.3%
Crédit Mutuel group	11.4%	62%	9.3%	11.0%	n.d.
Banques Populaires group	5.8%	79%	9.1%	11.1%	3.4%
<b>Italy</b>					
8 <i>Banche popolari</i> groups	8.1%	60%	7.0%	9.8%	4.1%
<b>Germany</b>					
Network of cooperative banks	6.9%	69%	7.9%	12.3%	n.d.

Source: European Association of Cooperative Banks (EACB) – Consolidated balance sheet at 31/12/07.

**Table 7: Quality of lending to firms**

	Bad debts/lending	
	31/12/2007	31/12/2008
<b><i>Banche popolari</i></b>	1.3%	1.9%
– top 5	1.2%	2.0%
– other	1.4%	1.7%
<b>Other banks</b>	1.4%	2.1%

Source: Central Credit Register.

**Table 8: Income**

	Operating costs/ gross income	Net interest income/ gross income	ROE
<b>BCC*</b>	<b>64.2%</b>	<b>79.2%</b>	<b>9.7%</b>
<b><i>Banche popolari</i></b>	<b>63.8%</b>	<b>63.9%</b>	<b>8.0%</b>
– listed	63.1%	62.7%	8.1%
– unlisted	67.9%	69.9%	7.5%
<b>S.p.A.</b>	<b>62.7%</b>	<b>61.5%</b>	<b>10.0%</b>

Source: Supervisory records – consolidated data at 30/6/08.

\* *Banche di credito cooperativo*

**Table 9: Capital**

	<i>Core Tier 1 ratio</i>	<i>Tier 1 ratio</i>	<i>Total capital ratio</i>
<b>BCC *</b>	<b>14.1%</b>	<b>14.1%</b>	<b>14.8%</b>
<b>Banche popolari</b>	<b>6.9%</b>	<b>7.5%</b>	<b>10.4%</b>
– <i>listed</i>	6.4%	7.1%	10.1%
– <i>un listed</i>	9.6%	9.6%	12.5%
<b>S.p.A.</b>	<b>6.2%</b>	<b>6.9%</b>	<b>10.1%</b>

Source: Supervisory records – consolidated data at 30/6/08.

\* *Banche di credito cooperativo*