

THE FOUNDATIONS OF BANKING ORIGIN

HISTORY

There are 88¹ Foundations of banking origin. Differing in size and local activity they engage solely in socially-oriented and economic development undertakings. They were created, almost by chance, twenty years ago from the banking reforms better known as the **Amato Law** (law no. 218 dated 30 July 1990 passed with the relevant implementation decrees) prompted by the 1st and 2nd European Directives on credit, concerning freedom of establishment and banking de-specialisation. These reforms provoked a profound and radical transformation of the original Pledge Banks and the Savings banks - banking institutions having strongly philanthropic leanings - that were born in the early part of the 19th century with some, like the Bank of Monte dei Paschi di Siena, four centuries earlier.

The Amato reforms produced a separation of credit business from philanthropic activities. All banking business was spun off and passed to the Savings Banks and to the Pledge Banks, already established as profit-making societies involved with private commerce and controlled by the Civil Code and banking standards as applied to ordinary banks. The activities concerned with social, cultural, civil and economic development remained with the newly-created Foundations.

Initially the Foundations of banking origin were destined, almost exclusively, to be trustees for the capital from the privatized banks and were required to maintain majority ownership of the joint-stock Savings Banks. This was the case until 1994 when law no. 474/94 came into operation and the requirement was eliminated. In 1998, with law no. 461/98 (a.k.a. the “Ciampi” law) and the subsequent application, decree, no. 153/99, the Foundations were required to **relinquish any control remaining in their respective banks**, an obligation still in force today except for Foundations which have net assets with a book value under €200 million in 2002 or are located in special statute regions (art. 4 Law Decree no.143/2003, signed into Law no.212/2003, which replaced paragraph 3 bis, art. 25, Law Decree no.153/1999).

Both the role of the Foundations of banking origin and their identity as **private, non-profit members of the third sector** were, however, fully and definitively clarified by the Constitutional Court in September 2003 in one fundamental sentence (no.300) which defined them as “**private, legal entities having statutory and management autonomy**” and as being “**among the members of an organisation of a free society**”.

The Foundations of banking origin have no management roles in the banks of which they are shareholders. They are actually institutional investors who obtain from their capital investments the funds necessary to carry out their philanthropic activities which are fulfilled through about a billion and a half of donations annually. These donations benefit a variety of sectors among which the principals are **art, cultural activities and heritage; social**

¹ Originally there were 89 Foundations. Of these 82 originated from Savings Banks, 6 from Public Law Credit Institutions and 1 from a Monte di Credito. Following a merger between two of them in 2004, they became 88.

assistance; research; education, learning and training; voluntary activities, philanthropy and charity; local development; public health; environmental protection and quality; family and associated values; sport and recreation.

Within these areas the Foundations act either directly or through projects, carried out by third parties both public and private, as long as they are non-profit; they are unable to benefit profit-making organizations or individuals.

The Foundations play an active role in Italy's social and economic life, both as philanthropic institutions and as important institutional investors. **The existence of the Foundations has given Italy numerous advantages:**

- has facilitated the **restructuring of the banking system**, initially through efficient integration processes;
- more recently, following the grave financial crisis that has hit the West, **has continually contributed to the activities for increasing capital that were requested from all Italian banking institutions** thus guaranteeing the stability of the system at a moment of great uncertainty;
- **has made available resources to carry out, autonomously and in a subsidiary manner, socially-oriented and economic-development projects**, in accordance with plans proposed by the Foundations, the non-profit sector and local authorities. In this way, the gap has narrowed between Italy and the Anglo-Saxon world, with respect to the presence of private initiatives and institutions in areas such as scientific research, landscape conservation, art preservation and social development;
- **has created partnership opportunities with local and national entities** (such as Cassa Depositi e Prestiti Spa).

All this is due to certain characteristics shared by the Foundations – their ability to operate autonomously; their sense of responsibility and their commitment to the subsidiary principle. Even though these traits are common to all, each Foundation is a totally independent organisation having not only its own internal statute and by-laws but also its own criteria for electing its governing bodies. The individual statutory objectives themselves are dependent on the diverse local cultures and needs.

When we look at the history of the original Savings banks we see that some had institutional origins (founded by local community entities) while others had associative origins (born as anonymous societies with capital contributed by private citizens). Therefore, we now have institutional Foundations and associated Foundations. The only difference between the two is that the last mentioned still hold assemblies of the original associates.

FINANCIAL PERFORMANCE

On 31st December 2010 the book value of the net assets of the Foundations of banking origin amounted to €50.16 billion² (up 1.4% on 2009), accounting for 84.3% of total assets, or **€59.5 billion** (up 1.4% against €58.7 billion in 2009). These net assets are divided between 88 organizations, widely varying in terms of size and scope of operations. The 5 largest

² The fair value of these net assets is estimated to amount to approximately €54 billion (€58 million in 2009). This is calculated by adding to the book value of the net assets the difference between the market value and the book value of the investments held by the Foundations. Market value reflects the average market price for the last three months of 2010 of the investments in listed companies and the latest value available for the investments in unlisted companies.

Foundations (accounting for 49% of total net assets) are: Fondazione Cariplo, Compagnia di San Paolo, Fondazione Monte dei Paschi di Siena, Fondazione Cassa di Risparmio di Verona Vicenza Belluno e Ancona, Fondazione Cassa di Risparmio di Torino. **It is worth noting that the net assets of the 18 largest Foundations³ represent 76.8% of the total while the 18 smallest Foundations hold little more than 1%.**

Grouping the Foundations by geographic area reveals that those located in Northern Italy (47) hold capital to the value of higher than €34 billion, 67.8% of total net assets. In particular, in the North-Western part of the country where 6 of the 18 largest Foundations are located, the average net assets are twice the average of the system as a whole (€1,145 million versus €570 million). However in Southern Italy and the islands where, for historic reasons there are only 11 Foundations, the average is recorded as €206 million, less than half of the general average.

The Foundations' banking investments amounted to €25.3 billion, **representing 42.5% of total assets** (against 40.7% in 2009). By the end of December 2010, of the 88 Foundations 18 no longer held shares in their original spin-off banks, 55 had a minority holding; the other 15 – who, in their group, represent 4.5% of the total funds of the Foundations – held more than 50%, in line with the dispensation introduced in 2003 (art.4 DL no.143/2003 - amended by Law no.212/2003, which substituted paragraph 3B of art.25 of DL no.153/99) for Foundations who either have a book value of their net assets of up to €200 million or are operating in special statute regions to be allowed to maintain control of their original banks.

Diverse interest-bearing activities including financial instruments other than banking investments, represented 52.6% of total assets equal to the sum of €31.3 billion (€25.3 billion included financial assets managed directly or through third parties; €6 billion invested in companies outside the original spin-off banking companies); while **property investment accounted for 2.1% and special purpose companies for 1.4%** of total assets. The special purpose companies established to carry out specific projects are functional in the realization of the Foundations' mission as are other investments in areas and for subjects whose objectives are in line with those of the Foundations: these activities are grouped under **Mission Related Investment**. It seems appropriate at this point to remember – even if the data refers to the movements in the period of 2009 – that these types of investments, homogenous and productive in the pursuit of the mission of the Foundations, arrive at about €3.33 billion with applications that extend from investments in property development societies (including the Cassa Depositi e Prestiti) to those both direct and indirect in motorways; airports and other local infrastructures plus banks and ethical funds.

In 2010 the Foundations had **ordinary revenues and gains of €1,986.3 million**, reflecting a decrease of approximately 21.2% on the amount for the previous year (€2,522 million). The Dividend income from the respective spin-off banks (equal to €707 million) – with a percentage share of the total revenues of 35.6% (26% in 2009) shows an increase of 47% on the previous year. Regarding this data it would be well to remember that the banking groups of Intesa San Paolo and Unicredit⁴ did not issue any dividends and that the bank Monte dei

³ Foundations are grouped by net assets in five quintiles: large Foundations (net assets from €612 million and up); medium-large Foundations (net assets between €207 million and €611 million); medium Foundations (net assets from €135 million to €206 million); medium-small Foundations (net assets between €65 million and €134 million); small Foundations (net assets up to €64 million).

⁴ In place of a pay-out of cash dividends, Unicredit distributed free shares (a.k.a. scrip dividends) to the value of €175.8 million. If this sum had been included among the dividends from the spin-off banks, the percentage share

Paschi di Siena paid out about one sixth of the dividends distributed in 2008.

Investments other than in the spin-off banks had a decrease in dividends (-8%) passing from €268 million to €246 million. Portfolio management activities produced €360 million (€509 million in 2009) while income from the other financial instruments closed at €545.2 million (€883.8 million in 2009).

The average return on the Foundations' net assets⁵ went from 5.1% in 2009 to 4% in 2010.

The operational costs in this period were 10.9% of the total revenues.

Operating surplus for the year accounted for 74.4% amounting to €1,477.2 million. Of this surplus, 23.3% - equal to €344.1 million - was assigned to reserves (Mandatory reserve + Value fluctuation reserve + Previous deficit cover), while 76.7% equal to €1,133.1 million - was assigned to institutional activity.

INSTITUTIONAL ACTIVITIES

For the institutional activities relative to the year 2010, €808.4 million, provided from the reserve funds accumulated during the previous years, was added to the sum of €1,133.1 million from the operating surplus producing a total of €1,941.5 million. In this field, **€1,366.6 million** (€1,386.5 in 2009) **has already been allocated to philanthropic activities** (€1,324.4 million for donations already decided by the Foundations and €42.2 million for the special funds for voluntary activities, Law no 266/91) while **€574.8 million is assigned for the funds destined to support future grants.**

The **number of projects financed** by the Foundations in 2010 reached 27,084, a slight increase on the previous year (25,716 in 2009). The **average amount** per project fell slightly to €50,459 (€53,914 in 2009) while the average number of projects per Foundation was recorded as 308.

▪ Sectors of Activity

From the 21 “eligible sectors” (by law⁶), 7 sectors are focused on for the major part of their grant-bestowing activities by the Foundations. Based on the funds allocated, the **Art, cultural activities and heritage** sector was first, with **30.2%** (29.4% in 2009). Within this

of the total revenues would have passed from 17.8% to 24.4%.

⁵ This calculation is the ratio of ordinary revenues and gains, net of withholding taxes, to the book value of net assets.

⁶ Legislative Decree no. 153 of 17/5/1999, article 1, paragraph 1c: Family and related values; Education, learning and training, including the purchase of publishing products for schools; Volunteer activities, philanthropy and charity; Religion and spiritual development; Assistance to the elderly; Civil rights; Crime prevention and safety; Food safety and quality agriculture; Local development and low-income housing; Consumer protection; Civil protection, Public health; Preventive and rehabilitative medicine; Sport activities; Addiction prevention and recovery; Psychic and mental pathologies and disorders; Scientific and technological research; Environmental protection and quality; Art, cultural activities and heritage. To this we had public utility works and infrastructure works following Legislative Decree no. 163 of 12/4/2006, article 153, paragraph 2 and article 172, paragraph 6.

sector, funding was provided mainly to *Conservation and enhancement of historic buildings and archaeological sites* (accounting for 33% of the funds allocated to the sector); the average amount of the individual grants was more than double the sector's average and a higher prevalence of private entities rather than public entities was noted among the beneficiaries. The sub-sector labelled *Initiatives to support artistic and literary productions* came next (18.1%), followed by the sub-sector *Other artistic and cultural activities* (15.4%) covering a wide variety of activities that cannot be classified elsewhere. The sub-sector *Museum activities* ranked fourth (6.6%) and *Visual arts* fifth (5%), followed by *Library and archives* (2.9%), and *Publishing and other communication media* (1.5%).

The second sector chosen in 2010 was that of **Social assistance** with **12.8%** of the total (10.1% in 2009). The greater portion (90.5%) went to the sub-sector *Social services*, followed by *Services for assistance in natural disaster, civil protection and refugee assistance* (2.8%). Recipients included primarily the disabled (37.4%), the elderly (24.1%), children (13.6%) and those with drug/alcohol dependencies (0.7%). Other beneficiaries (families at risk, people with no fixed abode, prisoners, etc.) received 20.6%.

The third sector was **Research**, receiving **12.6%** (14.2% in 2009). The sub-sector for *Research and experimental developments in the field of Natural and Technological Science* received 32.6% of the funds allocated to this sector while *Medical Research and Development* received 19.8% and *Research in Social Sciences* was given 3.2%.

In fourth place was the sector **Education, learning and training**, with **10.8%** of total funding (11.7% in 2009). The main sub-sectors were: *Higher learning*, i.e. university or equivalent education (37%); *Primary and secondary education* (31.8%); *Adult training* (11.6%); and *Youth development and training* (9.8%).

Following very closely, in fifth place, was the sector for **Voluntary activities, philanthropy and charity** receiving 9.6% of total funding (10.1% in 2009). Of this amount, the largest share (32.3%) equal to €42.2 million, was dedicated to *Reserve funds for voluntary organizations* followed by *Contributions to grant-making foundations and other philanthropic charities* (19.8%), i.e. funds allocated to such entities as community foundations, and other non-profit entities that channel resources to voluntary organizations. These sub-sectors were followed by the sub-sectors: *Charities* (11.9%); *Support for the development and living standards of poor countries* (8.9%); *Promotion and support for voluntary organizations* (6.1%) and *Cultural exchanges and international cooperation* (0.5%).

The sixth sector selected was that of **Local development** with **9.1%** of the funds allocated (against 12.7% in 2009). This sector includes projects for the *Promotion of economic development in local communities* (62.3% of the total allocated to the sector), *social housing construction* (5.4%) and *The completion of public works or utilities* (4%).

In seventh position was the sector for **Public health**, with **8.4%** of the total (7.3% in 2009). Under this heading we find sub-sectors including: *Hospital services* (67.5%), which range from the provision of medical equipment to the implementation of specific projects and the construction and restructuring of facilities; *Other health services* (21.9%), ranging from home assistance to the ill to support for the treatment of the terminally ill and the disabled.

Other sectors ranked far behind the above, accounting altogether for slightly less than 6.6% of the sums allocated. These comprised **Environmental protection and quality**, continuing to grow with a slight increase in share to **2.5%** (1.7% in 2009); **Family and related values** with 2.4% (1.1% in 2009), **Sport and recreation** with 1.6% (1.4% in 2009). And lastly, Civil rights, Religion and spiritual development, Crime prevention and public safety obtained overall €1.9 million for a total of 117 projects.

Regarding the choice of sectors for their operations, the grants policy of the Foundations highlights the **prevalent tendency towards a high degree of specialization**. This means that the Foundations decided to concentrate in one sector a sum equal to no less than 50% of total funding or no less than 60% of total funding in two sectors (medium specialization refers to the case where about 30% of funding goes to one sector or about 40% to two sectors). In this respect, the decisions adopted reflect the provisions of the law, which requires that the Foundations allocate at least 50% of the resources available to no more than five sectors (the so-called “significant sectors”) selected from among the “eligible sectors”. Each Foundation focuses, on average, on 6.2 sectors (6.4 in 2009). The sectors with the largest presence of Foundations are **Art, cultural activities and heritage** and **Voluntary activities, philanthropy and charity** (all 88 Foundations), **Education, learning and training** (83), **Public health** (73), **Social assistance** and **Research** (65).

Of the grant totals, the incidence of those higher than €100,000 has increased to 74.7% (74% in 2009) while those **higher than €500,000 to 48.7%**. The allocation of sums of €5,000 or lower remains, more or less, invariable within contained limits that would be difficult to surmount⁷, representing only 2.2% of the total allocated (2.1% in 2009). The **long-term grants**⁸ have slightly decreased, both in their total values (from 11.4% of the total funding in 2009 to 10.1 in 2009) and in their frequency (from 4.4% to 4.2% of the total number of grants).

▪ **Beneficiaries**

The recipients of the grants provided by the Foundations are always **private non-profit organizations** – accounting for 64.9% of total funding (65.6 in 2009) and 66.8% of all projects (68.1% in 2009) – or **public institutions**. The principal private recipients included: **foundations** (naturally not the Foundations of banking origins) who, with **26.9%** of total funding, confirmed their first position among the beneficiaries, both public and private. The *foundations* are followed by the *Associations* with 12.2%, of which 1.7% was devoted to socially-oriented Associations, *Voluntary organizations* (4.7%) and *Social cooperatives* (3.2%). A significant share of grants was provided to *Other private organisations* (17.9%), which also included religious institutions. Among **public institutions**, who received in total 35.1% of the total funding, **local authorities** were the main recipients, with **19.3%** of the funds allocated (18.6% in 2009). Following with 14.6% of the funds (14.5% in 2009) were *Public recipients other than local authorities*, including schools, universities, healthcare facilities, institutions for the elderly and charities, etc. Grants to *central government agencies* remained stable at 1.2%.

⁷ The Foundations still intend to support small local initiatives, which are the cornerstone of the non-profit sectors of the communities in which they are located.

⁸ For multi-year projects, reference was made to the amounts attributable to the fiscal year.

- **Territorial Distribution**

The Foundations continue to focus strongly on their local communities: **grants provided to the Foundations' own regions** accounted for the great majority of the total (91.8% of total funding and 93.3% of total projects). As to geographic distribution **Northern Italy** received about **70%** of total funding of which 36.9% went to the North-West and 33% to the North-East; **Central Italy** received **24.7%**, while **Southern Italy and the Islands 5.4%**.

- **Partnerships**

Among the projects that the Foundations share with other financial organizations a particular emphasis has been laid, during the last few years, on those realized in conjunction with other Foundations of banking origin, in a vista of a coordinated system of operations and that are developed with a long-term view.

It is possible that this concept has come directly from the Foundations who, between them, decided to “form a consortium” or else it has matured in the ambience of Acri, **these are projects needing a deep breath, of great national impact, regarding which the “communal” approach is seen as an essential factor for success** because on the one hand it allows the use of a common professional factor developed by the individual Foundations within their own local territories while on the other it encourages the growth of project efficiency and rationalisation. Where we have the same projects being carried out separately by a number of different organisations they may be exposed to the risk of fragmentation and the loss of useful information, shared planning allows the direction of strengths in a synchronised way and will have more impact.