

THE FOUNDATIONS OF BANKING ORIGIN

Capitalism, free trade, the social market economy, profit or non profit..... where do the Foundations of banking origin (Fob) fit in? This is the unspoken question in the minds of many, given the heterogeneous front presented by the Foundations. **Well, the Foundations are private, non-profit, autonomous organisations born in the early nineties as a result of a law being passed (law no.218 of 30/07/90, a.k.a. the Amato law)** which led to the privatisation of the Savings banks and of the Monte banking group. These were credit institutions with a strong sense of solidarity, many of which first came into being at the beginning of the nineteenth century during the critical phase of the passage from an agricultural to an industrial society, as a result of the local communities' need for self-government and self-preservation. **The Amato law separated the banking functions from the philanthropic activities.** The first were divided between the Savings Banks and the Pledge Banks (the Monte group). Already established as private, commercial, profit making institutions they were controlled by the Civil Code and answered to the same regulations governing banking and financial functions as other banks. **Meanwhile, the activities focussing on social, civil and economic development remained with the Foundations** (described as “of banking origin” because they were created during the reformation of the Italian banking system) which were also, initially, the major shareholders in the newly created banking institutions. The shareholdings of the majority of the Foundations have been significantly reduced through the years to the point where they are no longer the principle holders. The Foundations achieved their **definitive position within the institutional and juridic profile with the Ciampi reform of 1998/1999 which recognised the private jurisdiction of the Foundations - this was then clearly established by the Constitutional Court in September 2003 (sentences 300 and 301).**

There are 88 Foundations of banking origin. Differing in provenance¹, size and local activity their role is that of promoting development, not only within the territories in which they are based and where they have deep roots but also across the entire country. It is a role which is carried out in two ways – as institutions that provide philanthropic resources both to non profit entities and to local beneficiaries and also as important institutional investors.

Looking at their role as philanthropic institutions – charities in the English speaking world – the Foundations of banking origin are seen in Italy as a guiding force for voluntary organisations and for all of the third sector. As already mentioned, in 2003 **the Constitutional Court**, in the historic ruling (no.300), **placed the Foundations “among the members of an organisation for social freedom”**. Which is to say that they are recognised as providing a valuable, hidden infrastructure both for the economy and for cultural pluralism that doesn't assign all the responsibility for the well-being of the community to Public Administration. On the contrary, in reality the Foundations confirm the principle of subsidiarity and therefore the possibility of different bodies contributing to the confrontation and resolution of problems for the public interest.

In their capacity as benefactors, every year the Foundations of banking origin give away

¹ 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. The governing organs for both are the Board of Directors, Administration and Control.

about a billion euro and the recipients of the grants provided by the Foundations are always those who have non-lucrative objectives and are always working towards the public interest - **private non-profit organisations or public institutions**. The Foundations cannot make donations to profit making enterprises. **The resources used for these philanthropic grants come from income generated by capital investments. Only a part of these investments are in banking activities**. The rest are in capital management and in medium/fixed term assets and are always more frequently to be found within the areas identifiable with sectors already receiving donations, thus substantially increasing the resources available. **We are referring here to funds destined not only for social housing, for small and medium sized businesses, for technological research or for other infrastructures** but also for companies operating in strategic areas such as municipal sectors, motorways, airports and, last but not least, the CDP (Cash Deposits and Loans), crucial for land development and the revitalisation of the country.

In order to give shape to the excellent practices, already tried and tested, and to fulfil the spirit of the laws that govern them as well as reinforcing the affirmation of their disinterestedness and impartiality with respect to politics, in April 2012 the Foundations created a type of Ethical Code of reference, voluntary but binding, the Charter of the Foundations. The Charter has established the basis for a **process of auto-reform the fundamental transition for which was the signing (22nd April 2015) of a Memorandum of Understanding by the Association and the MEF** (Ministry of Economy and Finance) the authority supervising the Foundations of banking origins. It requires the Foundations linked to the Association to bring their statutes into line with those outlined within the Memorandum, **agreeing to reinforce the diversification of investments, enhance transparency in the area of philanthropy and introduce more stringent guidelines for the governance**.

FINANCIAL RESULTS FOR THE FOUNDATIONS IN 2014

FINANCIAL PERFORMANCE

On 31st December 2014 the book value of the net assets of the Foundations of banking origin² amounted to €41.2 billion accounting for 84.9% of total assets which added up to €48.6 billion. In this financial year, the book value showed an increase of 1% with a net positive fluctuation of more than €388 million. **From 2000 – the year in which Ciampi’s law became active – to 2014 there has been an annual average growth rate of 1.1%. In the same period 2000-2014 the Foundations were able to allocate resources to a value of €18.4 billion (€8.3 billion in the period 2008-2014 alone) and to set aside further funds – to a value of about €2 billion – for future philanthropic activities, reaching a total of €20.4 billion.** They have, therefore, fulfilled their obligations of safeguarding their capital resources and generating revenues to support their institutional activities.

Grouping the Foundations by geographic area reveals that those located in Northern Italy (46) hold capital to the value of more than €30 billion, 74.6% of total gross capital. **In the North-Western part of the country in particular, where 5 of the 18 largest Foundations are located, the average net assets have a value more than double the general average (€1,153 million versus €474 million).** However in Southern Italy and the islands where, for historic reasons there are only 11 Foundations, the average asset holding is recorded as €175 million, less than half of the general average. The 5 largest Foundations (accounting for 46.7% of total assets) are: Fondazione Cariplo, Compagnia di San Paolo, Fondazione Cassa di Risparmio di Verona Vicenza Belluno e Ancona, Fondazione Cassa di Risparmio

² The financial performance analysis for 2014 does not take into consideration the data from one of the Foundations whose balance sheet appears not comparable.

di Torino, Fondazione Cassa di Risparmio di Padova e Rovigo. The net assets of the 18 largest Foundations³ represent 75.6% of the overall system, while the 18 smallest Foundations weigh in at little more than 1.7%.

About 95% of the total assets of the Foundations of banking origin (€48.6 billion) consists of financial activities, while tangible and intangible fixed assets represent only 4%. Fixed assets amounted to €28 billion and, in spite of a reduction of €2.7 billion (-9%), represented 58% of the assets against 63% in 2013.

Investment in financial circulating assets increased by nearly €1.4 billion (+9.8%) reaching €15.7 billion. Although there was a decrease both in capital management of nearly €500 million (this same type of investment suffering a much larger reduction of about €4.5 billion in 2013) and in debt securities, quoted and non-quoted, of €690 million, these negative variations were more than compensated for by the growth of €1.6 billion in the investments in OICR (Organisations for Collective Investments) which amounted to a total of 7.3 billion euro, 15% of the total budget surplus and by an increase of €1.1 billion from investments in the spun-off banks (the shareholdings in the spun-off banks in short-term financial assets totalled €2.3 billion).

Staying with the total investments in the spun-off banks (whether short-term or not) it is noted that the reduction of €1.6 billion is the net result of increases totalling €708 million registered by 11 Foundations (about half of which recoups against previous devaluation), the sale of shares per €1.6 billion by 14 Foundations and of €750 million Euros made by 13 Foundations.

By 31st December 2014 of 88 Foundations, 26 no longer held shares in their original spun-off banks, 50 had a shareholding of less than 50%, while 12 of the smaller Foundations – in line with existing legislation⁴ – continued to have a major shareholding in their spun off banks.

Furthermore, 85 of the 86 Foundations associated with Acri, approving of the Memorandum of Understanding - signed 22nd April 2015 by the Association and the Ministry of Economy and Finance - which aims to optimise the combination of profitability and possible risks when utilising their capital, have accepted the principle of an appropriate change. It particularises that a Foundation should not utilise more than a third of its total assets, either directly or indirectly, on an individual subject, using “fair value” to evaluate the exposure and composition of the said assets. In such an operation, all the financial instruments will be included in the evaluation.

The Foundations have three years from the date of the signing of the MoU in which to reduce the amount of excess risk exposure where trading of financial instruments on the financial markets is involved and five years where the financial markets are not involved. In both cases the necessity of safeguarding the capital value will be taken into account as will market conditions and any effects from the transfers that take place.

The total proceeds for the financial year 2014 were €2,271.4 million showing an increase of 52.6% compared to the previous fiscal period (€1,488.2 million). If we analyse this we see that while the interest on shares were slightly reduced, total dividends paid showed an increase, as well as those distributed by the spun-off banks which went from €338.4 million to €361.1 million. Results from capital management more than doubled, rising from €110.6 million to €254.5 million and financial instruments management showed a positive balance of €800 million against the €43

³ Foundations are grouped by net assets in five quintiles: large Foundations (net assets from €496 million and up); medium-large Foundations (net assets between €199 million and €496 million); medium Foundations (net assets from €121 million to €199 million); medium-small Foundations (net assets between €73 million and €121 million); small Foundations (net assets up to €73 million).

⁴ A waiver introduced in 2003 (art.4 Law no.143/2003 converted into Law no.212/2003 which substituted para.3 of art.25 of legislative law no.153/99

million of 2013. Other income from non-financial resources came to €134 million (€21 million in 2013) while extraordinary items added €69.5 million to the total proceeds (€345.2 million in 2013).

The average net return on the total assets⁵ of the 87 Foundations analysed in 2014 was 5.5%, a noticeable improvement against the 3.6% of the previous year. Beyond doubt a positive result in both absolute and relative terms, confirming the upward trend begun in 2012 and highlighting the strength of the overall structure of the investments of all the Foundations, in particular of those 83 who showed a management surplus, irrespective of the depreciation of their shares in their spun-off banks.

Operational costs for all the Foundations fell in 2014 by 17.1% passing from €311 million to €258 million. This variation is due to the strong cost-control policies employed, the most evident of these being the reduction of reserve funds for risk and future financial obligations by more than €28 million, the reduction of the costs of borrowing by €20 million and the reduction of €2.6 million in payments to various organs.

The **fiscal charges – for direct taxes on income received and indirect taxes such as Irap and Imu paid throughout the year – came to over €423.7 million** of which: €297 million for withholding taxes on investment income; €108 million for Ires; €5 million for Imu and €3 million for Irap.

This significant increase is due to a number of factors:

- the growth in taxation on income from financial investments - from 20% to 26% as from July 2014;
- an addition of 20 percentage points on taxation on dividends as a result of the increase from 5% to 77.74% on taxable income, effective on all dividends distributed since the beginning of 2014;
- the assessment of surplus inherent in the Foundations' financial investments, due to the recovery of the markets, and the costing of the related tax liability.

Operating surplus on total revenues reached 73.2% (73.9% in 2013) amounting to €1,662.7 million against €1,099.7 million in 2013. **The increase of 51.2% is broadly in line with total revenues** - the significant limitation of operating costs was more than offset by the higher tax burden that impinged on the balance sheet.

With regard to the reserve funds set aside from the capital, for 2014 the Supervising Authorities confirmed a rate of provision for the “Reserve Requirements” at 20% of the operating surplus and fixed a top rate of 15% for provision to the “Reserve for Asset Integrity”. The Foundations, therefore, were able to allocate resources to their capital, to a variable degree – from a minimum of 20% to a maximum of 35% of the operating surplus. This margin of flexibility made it possible to gradually increase the extent of the total provision in relation to the operational result and to the necessity to safeguard the funds destined for philanthropic activities. **For all the Foundations combined, the data shows a sum of €533.3 million set aside for the capital reserve** (€340.8 million in 2013).

The sum of €1,165.2 million, comprising 70% of the total operating surplus, was allocated to institutional activities and to funds destined for future activities, against €840 million in 2013.

⁵ This report is based on a numerator of the total revenues, and a denominator of the average asset value, at the book value shown at the beginning and at the end of the financial year.

INSTITUTIONAL ACTIVITIES

Regarding the institutional activities relative to the year 2014, to the €1,165 million, provided by the operational surplus was added the sum of €520 million from the reserve funds accumulated in previous years. Therefore, **in 2014 the institutional activities of the Foundations accounted for €1,685.3 million.** In this field, **€911.9 million** (€884.9 million in 2013) **had already been allocated for the completion of activities already underway** (€866.9 million for donations already decided by the Foundations and €45 million for the special reserve funds for voluntary organisations, in line with Law no 266/91) **while €773.5 million was assigned for the funds destined to support future grants.**

In 2014 the Foundations **financed 22,805** initiatives (+2.1% up on 2013) with an **average sum** per project of **€39,985** (€39,619 in 2013) while the average number of projects achieved per Foundation was recorded as **259**.

▪ Sectors of Activity

From the 21 “eligible sectors” (by law⁶), the Foundations focus on 7 sectors for the major part of their grant-bestowing activities. Based on the amount of the funds allocated, the sector for **Art, cultural activities and heritage** came first, receiving **€272.8 million - 29.9% of the total** (30.4% in 2013). Within this sector, funding was provided mainly to the sub-sector labelled *Conservation and enhancement of historic buildings and archaeological sites* (34.1% of the sum allocated to the sector). In second place was the sub-sector *Initiatives to support artistic and literary productions* (accounting for 29.6% of the funds allocated to the sector). Next came *Promotion and Enhancement of Visual arts* (15.2%) followed by the sub-sectors *Museum activities* (9.4%); *Library and archives* (3.5%) and *Publishing and other communication media* (2.8%).

The second sector was **Voluntary activities, philanthropy and charity** receiving a total of **€131.7 million, 14.4%** of total funding (11.8% in 2013). Of this amount, the largest share went to the subsector *Special reserve funds for voluntary organisations* (34.2% equal to €45.5 million). This was followed by *Promotion and support for voluntary organisations* (28.3%); *Contributions to grant-providing foundations and other philanthropic charities* (21.2%) i.e. funds allocated to such entities as community foundations, and other non-profit entities that channel resources to third sector organisations; next came *Humanitarian and philanthropic initiatives* (4.6%); *Support for the development and living standards of poor countries* (4.2%); and *Cultural exchanges and international cooperation* (0.4%).

The third sector chosen in 2013 was that of **Social assistance with €123.6 million, 13.6%** of the total (13.5% in 2013). The greater part (98.4%) went to the sub-sector *Social services*, followed by *Services providing aid in the event of natural disasters, Civil protection and Refugee assistance* (1.5%). Recipients included firstly the disabled (56.8%), then the elderly (15.8%), next children (12.8%) and those with drug/alcohol dependencies (1.7%). Other beneficiaries (families at risk, people with no fixed abode, prisoners, etc.) received 12.4%.

In fourth place was the sector **Education, learning and training with €120.9 million, with 13.3%**

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; Voluntary activities, philanthropy and charity; Religion and spiritual development; Assistance to the elderly; Civil rights; Crime prevention and public safety; Food safety and quality agriculture; Local development and low income housing; Consumer protection; Civil protection, Public health; Preventive and rehabilitative medicine; Sports activities; Addiction prevention and recovery; Psychological and mental pathologies and disorders; Scientific and technological research; Environmental protection and quality; Art, cultural activities and heritage. To this we add public utility works and infrastructure growth following Legislative Decree no. 163 of 12/4/2006, article 153, paragraph 2 and article 172, paragraph 6.

of the total allocated (11.9% in 2013). The main sub-sectors were: *Higher education*, i.e. university or equivalent education (35.6%); *Primary and secondary education* (34.9%); *Professional instruction and Adult training* (15.9%) and *Youth development and training* (12.6%).

In fifth place the sector **Research and Development with €114.4 million, 12.5% of total funding** (14.5% in 2013). The sub-sector *Research and experimental development in the medical field* received 29.5%. To *Dissemination and expansion of Technological knowledge* went 23.4% followed by *Research and development in the field of human and social science* with 19.6%; *Research and development in the field of mathematical, physical and natural sciences* with 15.4%, and *Research and development in the Engineering field* receiving 7%.

The sixth sector selected was **Public health**, receiving **€68.9 million, 7.6%** of the total (7.7% in 2013). In this field we find sub-sectors including: *Hospital services* (60.5%), which range from the provision of medical equipment to the implementation of specific projects and the construction and restructuring of essential facilities; *Other health services* (19.7%), ranging from home assistance for the ill, to support for the treatment of the terminally ill and the disabled; *Psychological and mental pathologies and disorders* (0.6%).

Significantly, 35.6% of funding (nearly 33% in 2013) **equal to about €325 million was awarded to Welfare under which umbrella we find the sectors Social assistance, Public health and Volunteering, for projects not covered by public services.**

And finally in seventh position was the sector **Local development with €45.4 million, 5%** of the funds allocated (against 5.6% in 2013). This sector includes projects for the *Promotion of economic development in local communities* (63.6% of the total allocated to the sector); *Social housing construction projects* (16.7%); the *Accomplishment of public works or utilities* (16.3%), *public popular housing* (2.37%), *Microcredit transactions* (0.4%).

Concluding the classification we have **Environmental protection and quality**, with funding of €18.4 million (2% against 1.8% in 2013); **Sport and recreation** with €8.1 million (0.9% against 1.4% in 2013), **Family and related values** with €6.2 million (0.7% against 1.2% in 2013), and lastly, Civil rights; Religion and spiritual development; Crime prevention and public safety altogether received around €1.5 million for a total of 98 projects.

Regarding the choice of sectors for their allocations, the grants policy of the Foundations highlights the **prevailing tendency towards a high degree of sector specialization** meaning by this that the Foundations choose to concentrate on just one sector a sum of at least 30% of total funding or at least 40% of total funding on two sectors (it is considered high when the amount allotted to a sector is greater than or equal to 50% of the total allocated, or if the amount allotted to the two sectors reaches 60% of the total). In this respect, despite the legislation allowing the Foundations to choose five from the eligible sectors on which to focus their resources (at least 50% of their annual net income, that is to say the operating surplus net of the obligatory reserve funds), in their normal practice the number of sectors chosen is, on average, lower. All of the Foundations polled operate in the sector **Art, Cultural activities and Heritage**. Regarding the other sectors, those with the highest presence of the Foundations are **Voluntary activities, Philanthropy and Charity** (where 83 Foundations operate); **Education, Learning and Training** (82 Foundations), **Public health** (67 Foundations), **Research and Development** (61 Foundations) and **Social assistance** (55 Foundations).

The percentage of **grants allocated that are higher than €100,000 was 68.5%** (68.8% in 2013) with the number of corresponding projects standing at 5.9% (7% in 2013). The percentage of those **higher than €500,000 was 42.9%**. The **allocation of sums of €5,000 or lower** remains, more or

less, unchanged from the preceding year, representing only 2.9% of the total allocated (3% in 2013) while the percentage of projects has slightly increased to 49.2% (47.3% in 2013). The **long-term grants**⁷ make progress in relation to their total allocation (to 11.6% from 10.4 in 2013) whereas there was a slight decrease in the number of projects (to 2.8% from 3.3% in 2013).

▪ **Beneficiaries**

The recipients of the grants provided by the Foundations are always **private non-profit organisations** – accounting for 67.7% of total funding (67.1% in 2013) and 69.1% of all projects (69.6% in 2013) – or **public institutions**. The principal private recipients include: *foundations* (naturally not the Foundations of banking origin) who, with **30.8%** of total funding, confirmed their first position among all the beneficiaries, both public and private. The *foundations* are followed by *Associations* (13%, of which 1.7% was devoted to socially-oriented Associations); *Other private organisations* (10.7%), which includes Committees, private IPAB, ONG, private schools and health facilities; *Voluntary organisations* (6.9%) and *Social cooperatives* (3.2%); *Religious Institutions* (2.5%); *Social enterprises* (0.2%). Among the **public institutions**, who received in total 32.3% of the total funding, were: *Local authorities* (17%); *Public schools and Universities* (8.7%); *Public Health authorities and businesses* (3.5); *Other public authorities* (2.1%) and *Local governments* (2.8%).

▪ **Territorial Distribution**

The Foundations continued to focus strongly on their local communities in 2014: **grants provided to the Foundations' own regions** accounted for the great majority of the total (87.1% of total funding and 95.1% of total projects). As to geographic distribution **Northern Italy** received **70.6%** of total funding of which 40% went to the North-West and 30.6% to the North-East; **Central Italy** received **22.7%**, while **Southern Italy and the Islands received 6.8%**. In the Southern territories and islands the Foundations also operate through the Foundation with the South which in 2014 carried out activities to the value of €24.4 million.

▪ **Partnerships**

Among the projects that the Foundations share with other financial organisations a particular emphasis has been laid, during the last few years, on those realized in conjunction with other Foundations of banking origin, within a vista of a system of operations that are co-ordinated and developed with a long-term view. It is possible that this concept has come directly from the Foundations, deciding among themselves 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.** 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 an increase in project efficiency and rationalisation. When the same projects are carried out separately by a number of different organisations there could be a risk of fragmentation or duplication and the loss of useful information, while shared planning allows the synchronised direction of strengths which therefore must have a greater impact.

⁷ For multi-year projects, reference was made to the amounts attributable to the fiscal year.