

THE FOUNDATIONS OF BANKING ORIGIN

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 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 was spun off and attributed to the Casse di Risparmio Spa and the Pledge Banks (the Monte group), by that time 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 origins" 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 over the years to the point where they are no longer the principal holders. The Foundations achieved **their definitive position within the institutional and juridical 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 to promote development, not only within the territories where 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

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.

(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 economic and social pluralism that doesn't assign all the responsibility for the well-being of the community to Public Administration. On the contrary, 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.

Every year the Foundations of banking origin give away more than a billion euros 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 private citizens who are engaged in profit-making enterprises. **The resources used for these philanthropic grants come from income generated by capital investments. Only a part of these investments is in banking activities.** The rest are used for capital management and other medium-long term investments, which are being made more and more often within the sectors which are already receiving disbursement, 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 systematicity to the best practices already tested and to fulfil the spirit of the laws that govern them, as well as strengthening the defense of its own autonomy and impartiality with respect to political and economic powers, the Foundations created a type of Ethical Code of reference, voluntary but binding: The Charter of the Foundations. This Charter laid the foundations for a self-reform process whose key passage was the signature, on April 22, 2015, of a Memorandum of Understanding between Acri and the Mef (Ministry of Economy and Finance), which is the supervisory authority on Foundations of banking origin. It commits the Foundations adhering to the Association to modify their statutes according to the Protocol itself, which is intended to strengthen the diversification of investments, enhance the transparency of disbursements, and regulate in more stringent terms the governance.

FINANCIAL RESULTS FOR THE FOUNDATIONS IN 2017 FINANCIAL PERFORMANCE

On 31st December 2017 the book value of the net assets of the Foundations of banking origin amounted to €39.8 billion accounting for 86% of total assets which added up to €46.1 billion. In this financial year the book value remained substantially unchanged, recording a positive change of €90 million (+ 0.2%) deriving from the €718 million increase in the assets of 60 Foundations and the decrease of €628 million in the assets others 28 Foundations. **From 2000 – the year in which Ciampi's law became active – to 2017 there has been an annual average growth rate of 0.7%.** **In the same period 2000-2017 the Foundations were able to allocate resources to a value of €21.3 billion** and to set aside further funds – to a value of about €1.9 billion – for future philanthropic activities, reaching a total of €23.2 billion.

Grouping the Foundations by geographic area reveals that those located in Northern Italy (47) hold capital to the value of more than €30 billion, 74.2% 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 about two and a half times the general average (€1,087million versus €452**

million). However, in Southern Italy and the islands where, for historical reasons there are only 11 Foundations, the average asset holding is recorded as €181 million, less than half of the general average. The 5 largest Foundations (accounting for 47.7% of total assets) are: Fondazione Cariplo, Compagnia di San Paolo, Fondazione Cassa di Risparmio di Torino, Fondazione Cassa di Risparmio di Padova e Rovigo, Fondazione Cassa di Risparmio di Verona Vicenza Belluno e Ancona. The net assets of the 18 largest Foundations² represent 77.3% of the overall system, while the 18 smallest Foundations weigh in at little more than 1.1%.

About 94.2% of the total assets of the Foundations of banking origin (€46.1 billion) consists of financial activities, while tangible and intangible fixed assets represent only 4.8%, 1% other items.

Fixed financial assets amounted to €27.8 billion (€28,5 in 2016). Adding to this, fixed assets in operating companies amounted to €1 billion (unchanged compared to 2016), the total financial assets accounted for 62.3% of assets against 63.7% in 2016.

The investment in not immobilised financial assets increased by €1 billion and amounted to €13 billion. In this context, asset management recorded a sharp reduction and totalled €1.7 billion compared to €6.6 in 2016, while investments in funds rose sharply (+ € 6 billion) and holdings in the company remained almost unchanged (- €77 million). Total investment in spun off banks (either immobilised or not) amounted to €12.2 billion, with a decrease of €1.3 billion compared to 2016. This reduction is the result of the sale of shares.

By 31st December 2017 of 88 Foundations, 35 no longer held shares in their original spun off banks, 47 had a shareholding of less than 50% shares in their original spun off banks that are part of banking groups, while 6 of the smaller Foundations – in line with existing legislation³ – 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 total proceeds for the financial year 2017 were €2,087.4 million, +53.8% compared to the previous year (€1,357.2 million). The positive result of financial investments undoubtedly affected (the yield went from 2% in 2016 to 4.5%), which was affected by the good performance of share prices, rather than changes in rates. In fact, total interest is reduced by around €23 million, while the margin resulting from the management of financial instruments improved significantly, from -€51.7 million to +€13.9 million, despite the devaluations made by some Foundations on certain investments. The result of asset management shows an improvement (+€167 million) and the dividends also grow

² Foundations are grouped by net assets in five quintiles: large Foundations (net assets from €439 million and up); medium-large Foundations (net assets between €205 million and €439 million); medium Foundations (net assets from €94 million to €205 million); medium-small Foundations (net assets between €48 million and €94 million); small Foundations (net assets up to €48 million).

³ 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

by €345 million in total, with the profits distributed by the spun off banks, which rose from €630 million in 2016 to €637 million. Finally, non-financial income, at €51.3 million (€ 81.5 million in 2016), and extraordinary income, at €238.3 million (€33.3 million in 2016), increased overall by 147%, from €114.8 million to €289.6 million.

The average net return on the total assets⁴ of the Foundations in 2017 was 5.3%, increased from the previous year: a positive result in both absolute and relative terms, considering that the profit is net of the high direct and indirect tax burden, which has grown further in 2017.

Operational costs for all the Foundations in 2017 rose from €239.2 million to €247.7 million. This variation is mainly due to the increase in provisions, the fees paid to consultants and amortisation; while the fees paid to government bodies, trading commissions and interest expense decreased.

The **fiscal charges** – for direct taxes on income received **and indirect taxes paid throughout the year – came to over €487 million (€354.6 million in 2016)** of which: €278.6 million for withholding taxes on investment income; €108.8 million for Ires; €4.1 million for Imu; €2.7 million for Irap.

The significant increase in taxation over the years is the effect of some factors: the progressive tightening, from 12.5% to 26%, between 2012 and 2014, of the rate for the taxation of financial income; the increase from 5% to 77.74% of the tax base of the collected dividends, introduced by Law no. 190 of December 23, 2014 (c.d. 2015 Stability Law). Instead, the reduction of Ires rate from 27.5% to 24% with effect from 1st January 2017, will be absorbed entirely from 2018 by the expansion of the tax base of dividends from 77.74% to 100% introduced by the Decree of May 26, 2017

Operating surplus on total revenues, which increased by 76.2%, was €1,476.7 million against €838.3 million in 2016, equal to 70.7% of total income (61.8% in 2016).

With regard to the reserve funds set aside from the capital, for 2017 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”. **For all the Foundations combined, the data shows a sum of €474 million set aside for the capital reserve** (€244.5 million in 2016).

Resources for institutional activity, including funds allocated for future activities, accounted for 73.1% of total operating surplus and amounted to €1,078.7 million, against €641.4 million in 2016.

INSTITUTIONAL ACTIVITIES

In 2017 the institutional activities of the Foundations of banking origin recorded a slight decrease in volumes (-4.5%) compared to 2016, the year in which there was a reversal of the trend after some years of uninterrupted contraction. In absolute terms, the disbursement of 2017, including provisions for special funds for voluntary ex art. 15 L. 266/91, amounted to €984.6 million (€1,030.7 million in 2016), for 19,860 interventions (20,286 in 2016; -2.1%). The average amount per project slightly

⁴ 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.

decreased to €49,576 (€50,806 in 2016), as well as the average number of projects achieved per Foundation: 226 in 2017 against 231 in 2016.

Sectors of Activity

Among the 21 “eligible sectors” (by law⁵), 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** is confirmed first, receiving **€236.9 million, 24.1% of the total of the expenditures** (25.3% in 2016). Within this sector, funding was provided mainly to the sub-sector labelled *Initiatives to support artistic and literary productions* (accounting for 34.7% of the funds allocated to the sector). In second place was the sub-sector *Conservation and enhancement of historic buildings and archaeological sites* (27.2% of the sum allocated to the sector). Next came *Museum activities* (14.9%) followed by the sub-sectors *Promotion and Enhancement of Visual arts* (10.2%); *Publishing and other communication media* (4.8%); *Library and archives* (4.6%).

The second sector is that of **Social assistance with €135.6 million, 13.8%** of the total of the expenditures (12.4% in 2016). The greater part (97.9%) went to the sub-sector *Social services*, followed by *Services providing aid in the event of natural disasters, Civil protection and Refugee assistance* (2.1%). Recipients included: the disabled (56.8%), the elderly (31.9%), children (9.8%), drugs/alcohol addicts (0.9%). Other beneficiaries (families at risk, homeless people, prisoners, etc.) received 0.5%.

The third sector was **Research and Development with €117.8 million, 12% of total funding** (12.1% in 2016). The sub-sector *Research and experimental development in the medical field* received 28.5%. To *Research and development in the field of human and social science* went 28.5% followed by *Dissemination and expansion of Technological knowledge* with 19.7%; then *Research and development in the field of mathematical, physical and natural sciences* with 12.3% followed by and *Research and development in the Engineering field* with 11.9%.

In fourth place was the sector **Voluntary activities, philanthropy and charity receiving a total of €115.2 million, 11.7%** of total funding (12.1% in 2016). Of this amount, the largest share went to the subsector *Special reserve funds for voluntary organisations* (34%, over €39.2 million), followed by: *Contributions to grant-providing foundations and other philanthropic charities* (28.5%) i.e. funds allocated to such entities as community foundations, and other non-profit entities that channel resources to third sector organisations; *Promotion and support for voluntary organisations* (26.6%); *Humanitarian and philanthropic initiatives* (5.6%); *Support for the development and living standards of poor countries* (3.2%).

In fifth place was sector **Education, learning and training with €95 million, with 9.6%** of the total allocated (9.4% in 2016). The main sub-sectors were: *Higher education*, i.e. university or equivalent

⁵ 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.

education (32.4%); *Primary and secondary education* (29.7%); Youth development and training (23.5%) and *Professional instruction and Adult training* (13.2%).

The sixth sector selected was the sector **Local development with €76.7 million, 7.8%** of the funds allocated (9.8% in 2016). This sector includes projects for the *Promotion of economic development in local communities* (72.5% of the total allocated to the sector); *Social housing construction projects* (10.7%); *Accomplishment of public works or utilities* (8.6%); *Public popular housing* (8.2%), *Microcredit projects*.

In seventh position was the sector **Public health, receiving €46.3 million, 4.7%** of the total (4% in 2016). In this field we find sub-sectors including: *Hospital services*(50.6%), 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* (47.6%), ranging from home assistance for the patients , to support for the treatment of the terminally ill patients and disabled; *Psychological and mental pathologies and disorders* (1.8%).

It is significant that Welfare - under which umbrella we find the sectors Social assistance, Public health and Volunteering - received a total of €297 million. To these resources we have to add the €120 million specifically addressed to the Fondo per il Contrasto della Povertà Educativa Minorile (Fund to tackle under-age educational poverty) in 2017 by 73 Foundations associated with Acri. This leads to €417 million the resources allocated to Welfare: more than 42% of total grants.

Concluding the classification, we have **Environmental protection and quality**, with funding of €17.8 million (1.8% against 1.4% in 2016); **Family and related values** with €11.4 million (1.2% against 0.6% in 2016), **Sport and recreation** with €10.3 million (1% against 1.1% in 2016), and lastly, Civil rights; Religion and spiritual development; Crime prevention and public safety altogether received €2 million for a total of 76 projects.

With regard to the choice of sectors for their allocations, more than half of the Foundations operates with an average degree of **sector specialisation**, while the remaining part stands at a high degree, confirming the trend recorded in 2016. Still, the Foundations choose to concentrate a sum between 40% and 60% of total funding on just two sectors. These percentages document the full alignment of the Foundations disbursement policies to the laws already mentioned which impose to allocate at least 50% of funds available to no more than five “eligible sectors”.

The average number of sectors of each Foundation is 6.2 (in 2016 the average was 6.4). 86 Foundations 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 84 Foundations operate); **Education, Learning and Training** (81 Foundations), **Public health** (59 Foundations), **Research and Development** (54 Foundations), **Local development** (49 Foundations). In 2017, 73 Foundations have joined the Fondo per il contrasto alla povertà educativa minorile (Fund to tackle under-age educational poverty).

The percentage of **grants allocated that are higher than €100,000 was 73.6%**(73.1% in 2016) with the number of corresponding projects standing at 7.6% (6.7% in 2016). The percentage of those **higher than €500,000 was 50.4%**. The **allocation of sums of €5,000 or lower** increases slightly compared to the previous year both in the amount (2.3% against 2.2% in 2016) and in the

number of projects (45.5% against 44.9% in 2016). **The long-term grants**⁶ decreased in the amounts (6.2%), and in the number of projects (2.8%).

Beneficiaries

The recipients of the grants provided by the Foundations are always **private non-profit organisations** – accounting for 78.4% of total funding (77% in 2016) and 72.5% of all projects (70.2% in 2016) – or **public institutions**. The principal private recipients include: **foundations** (naturally not the Foundations of banking origin) who, with 30.1% of total funding, confirmed their first position among all the beneficiaries, both public and private. The *foundations* are followed by *Other private organisations* (22.9%), which includes Committees, private Ipab, Ngo, private schools and health facilities; *Associations* (13.6%, of which 1.3% was devoted to socially-oriented Associations); *Voluntary organisations* (5.6%); *Religious Institutions* (2.8%); *Social cooperatives* (2.2%); Social enterprises (0.4%). Among the **public institutions**, who received in total 21.6% of the total funding, were: *Local authorities* (10.2%); *Public schools and Universities* (8.3%); *Public Health authorities and businesses* (1.7%); *Other public authorities* (1.3%) and *Local governments* (0.9%).

Territorial Distribution

The Foundations continued to focus strongly on their local communities in 2017: **grants provided to the Foundations' own regions** accounted for the great majority of the total (85.9% of total funding and 93.2% of total projects). As to geographic distribution **Northern Italy** received **70.5%** of the total funding of which 46.1% went to the North-West and 24% to the North-East; **Central Italy** received **23.8%**, while **Southern Italy and the Islands** received **6.2%**. In the Southern territories and islands the Foundations also operate through the Fondazione Con il Sud, which in 2017 carried out activities to the value of €15 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 realised in conjunction with other Foundations of banking origin, within a vista of a system of operations that are coordinated and developed with a long-term view. These projects can come directly from the Foundations which decide to “form a consortium” among themselves or they can be born in Acri environment. **These are wide-ranging projects, often of national importance, in which the "common" approach presents itself as an essential success factor.** 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.

A short list, obviously not exhaustive: the *Fondo Nazionale Iniziative Comuni* for emergency interventions following natural disasters; *Funder35* for the strengthening of the organisational and management skills of youth cultural enterprises; *Foundazioni for Africa - Burkina Faso*, for the promotion of local development in some regions of the African country; *Young Investigator Training Program*, for the support of young Italian researchers residing abroad or foreigners to carry out

⁶ For multi-year projects, reference was made to the amounts attributable to the fiscal year.

training sessions at Italian research institutes; *Green Jobs*, to spread environmental awareness in schools and among young people as an opportunity to develop new professions; *Per aspera ad astra*, which intends to extend on a national scale the thirty-year experience of theatre in prison by the Compagnia della Fortezza in Volterra.