ITALIAN BANKING FOUNDATIONS: THE PATH FROM BANKING HOLDING COMPANY TO AN INNOVATIVE FORM OF "PRIVATE WELFARE"

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ITALIAN BANKING FOUNDATIONS: THE PATH FROM BANKING HOLDING COMPANY TO AN INNOVATIVE FORM OF "PRIVATE WELFARE"

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Abstract

Acknowledging the peculiarity of Italian Banking foundations in the international panorama, this study examines their dual role as banks' shareholders and philanthropic institutions sustaining local development and social aims. We review the historical evolution of legal framework of Italian banking Foundations from holding companies for their originating banks to autonomous non-profit entity devoted to socially valuable projects and investments. Even if Italian Law required boosted a progressive separation of the banking foundation from their "conferred bank", our empirical analysis of 88 Italian Banking Foundations for the period 2001-2012 suggest that they did no achieve the expected independence. The existence of such enduring linkage between the two entities has relevant and negative implications on the diversification of investments, financial structure, profitability and, hence, on the ability of Banking Foundations to pursue their institutional activity.

Key words: banking foundation, legal status, heritage, grant-making activity

JEL classification: G21, K23, D64

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"As a positive observation, it becomes interesting to clarify which aims could be reached in terms of collective welfare, in the presence of an "industrial" structure with mixed oligopolies, where the Foundations represents an actor for the production or financing of some goods or services"[1]

c.

"Today the monster dies and Frankenstein rejoins his father[2]*" (Giuliano Amato)*

ANTECEDENTS

Created in the early 1990s as part of a larger privatization process of Italian savings banks, the 88 Italian banking Foundations have been the subject of endless debate concerning their concurrent role of banks' shareholders and philanthropic institutions sustaining local development and social aims. The recent financial crisis renewed such discussion and, above all, concerns on their role in the capitalization and governance of banks and their dependence from banking profits. Given their twofold nature, Italian banking Foundations represent a peculiarity in the international field of Foundations and, as such, they have widely investigated by other countries interested in adopting a similar system (Schlüchter, Then and Walkenhorst, 2001; Barbetta, 2013).

The aim of this report is to analyze how the 88 Italian banking Foundations managed their idiosyncratic dual soul, pointing out their tranformation alongside the evolution of the legal framework and the changes in the participated banks.

[1] Patrimoni&Scopi. Per un'analisi economica delle fondazioni. G. Turati,M. Piacenza, G. Segre (2008), pg XVI.

2http://archiviostorico.corriere.it/1999/maggio/15/Fondazioni_Amato_tiene_battesimo_via_co_0_9905156884.shtml

We divide our report in two parts. In the first part we first analyze the evolution of the legal framework that has dealt with Italian banking Foundations. Then we describe the actual situation with a special emphasis on the recently issued Foundations Charter ("Carta delle Fondazioni"). In the second part we conduct an empirical analysis of the activity of banking Foundations. We look at their investments, form of financing and profitability. Then we analyze their institutional activity of grant-making and socially responsible investors. Finally we provide some conclusions.

Part I

1. Origins and evolution of the legal framework for Italian Banking Foundations

At the beginning of the 1990s, Italy started a process of transformation of its banking system in order to establish a regime of competition and overcome the relevant problems of undercaptalization of public banks. The 88 existing savings banks and other public banking institutions were transformed into joint-stock companies. At the same time their banking and charitable activities were separated. As a consequence banking Foundations were introduced to pursue the charitable activities and to hold banks' majority stakes. The banking Foundations initially held all the shares of the privatized banks and they are still among the major shareholders of the participating banks. Nevertheless article 2 of Law 461/1998 defines banking Foundations as non-profit organizations pursuing social utility and economic development at local level. Banking Foundations exert their prominent role in the field of subsidiarity by investing their substantial resources to generate an income which is used to operate as grant-making organizations in the fields of cultural heritage, science, education, local development and social welfare (ACRI, 2010). Hence, by virtue of their grant-making capability, banking Foundations have become new territorial development agents while maintaining an important role in the Italian banking system. As a consequence banking Foundations appear as "double companies" combining profitability and economic rationale with a grant-making activity to support the local society (Faravelli and Clerici, 2013).

The legal framework regulating Italian Banking Foundations is detailed as follows, on the basis of four fundamental stages.

1.1. Stage 1 (1990-1994): banking Foundations as forced owners of bank capital

Banking Foundations were born during the process of banking privatization in Italy for initiative of the legislator that also determined their organizational form. As such they are "Foundations from the above[3]" and quite young entities.

The D. lgs. N. 356/1990, which implements the Law issued under delegated power n. 218 of the same year (the so-called "Amato Law"), facilitated, also with tax incentives, the transformation into joint-stock companies of the previous public banks and the subsequent transfer of the philanthropic and charitable activities originally attributed to saving banks and public banks.

The Amato Law aimed at finding a structural solution to the problems of fragility of the saving and public banks' system. Given that the "natural" solution of a recapitalization of banks was very difficult because of their legal structure, the adopted solution was to divide activity and structure between the bank (in the form of joint-stock company) and the "conferring body" (the Foundation). This solution also allowed to reach a second objective: the perpetuation of the existing link with the local territory and, even more important, the definition of a technical-institutional device pursuing the charitable activities through the distribution of part of profits towards socially valuabe initiatives in the same areas where the saving and public banks had traditionally operated before. It is to be noticed that the Implementing Decree of the Amato Law clearly prescribes the obligation for the "conferring bodies" – as in origin banking Foundations were named - to maintain the majority (at least the 51%) of the "conferred banks'" capital.

In 1990, at the moment of the approval of the Amato Law, there were 84 savings banks affected by the Law representing 101.3 billions of euros of deposits (13.3% of the entire system) and 65.6 billions of euros of Credits (11.6% of the entire system).

Since then an intense restructuring of the Italian banking system has taken place, which has radically transformed it. The degree of concentration has dramatically increased through the creation of some big banking groups – leaders nowadays at both international and national level. Such process involved also the saving banks' system: many of them have merged during the period from 1990 (Amato Law) up to now. At the moment the

[3] *Patrimoni&Scopi. Per un'analisi economica delle fondazioni*. G.Turati, M. Piacenza G. Segre (2008), pg 11.

segment of the saving banks is radically different from the original situation in 1990. As shown in the following table, at the end of 2012 in Italy only 17 indipendent saving banks (joint-stock companies) still exist with deposits of 91 billions euros (4.66% of the system) and credits slightly more than 91 billions euros (5.40% of the domestic market).

Table 1. Savings banks (SB) and Banking system: from 1990 to 2012

	1990		2012	
	SB	System	SB	System
Number of Banks	84	1064	17	710
Deposits **%**	€ 101.289,07 **13,30**	€ 761.802,55	€ 90.579,84 **4,66**	€ 1.943.173,54
Credits **%**	€ 65.598,66 **11,60**	€ 565.313,79	€ 91.430,30 **5,40**	€ 1.693.690,38
Credits/Deposits (%)	64,76	74,21	106,13	87,91

Source: XVIII Rapporto Fondazioni Casse di Risparmio ed Economie Regionali: Un Modello Consolidato di Sviluppo

1.2 Stage 2 (1994): the obligation to maintain the control of the banks is removed

As we said before the original legislation forced the Foundations to maintain the control of the "conferred banks" with the aim to avoid a destabilizing reorganization phase. The first change occurs with the Law 474/1994 that abolishes this provision and brings in important fiscal incentives for the divestment of the shareholdings of the "conferred banks" owned by the Foundations themselves. The law-maker pursued a relatively smooth transition and *de facto* started off the separation of the Foundations from the banking system. This law wanted to encourage a "constituent phase" for the Foundations, which should sell the ownership of the majority of the banks' shares and focus their activity on the exploitation of their supporting role of their territories.

1.3 Stage 3: an attempt to clarify the legal status of the Foundations

The Law n. 461/98 and its subsequent implementation decree n. 153/99 establish a fundamental principle that appears to be crucial if we look at debate concerning the banking Foundations and their connection with the “conferred banks”. It provides us the exact definition of the legal status of the banking Foundations: these are non-profit making legal entities with a full statutory and managerial autonomy (art. 2, 1° subparagraph d. lgs. n. 153/1999). It also states that they must divest the control stake of the “conferred banks” and establishes a transitory period – of almost 5 years - of fiscal neutrality for the capital gains obtained during such divestment.

However the content of the above-mentioned Law is considered not decisive and the debate continues with strong contrasts concerning the juridical interpretations.

1.4 Stage 4: the actual situation. Foundations as actors of socially aware private activity

Several disputes arose because of the potentially contradictory nature of the various laws described above. These have been solved by the Constitutional Court with the sentences n. 300 and 301 of 2003: banking Foundations’ role and identity are clearly and definitively described as “private legal entities with a full statutory and managerial autonomy […] actors organizing social rights”. Their regulations belong to the civil sphere and the relative law competence belongs to the state. No organizational model can be imposed on them. The possible joint control of the banks by the banking Foundations can’t be presumed, but must be evident through explicit voting agreements so that the correct functioning of the market and transparency are preserved.

The sentences of the Constitutional Court undoubtedly clarify that banking Foundations don’t belong to the banking system rather they are private legal entities in the form of non-profit making organizations. Therefore “the control of the bank, or even the shareholding of it, is no more their distinguishing point”.

Even if they originally were the owners of the majority stakes of banks’ equity capital, it is now evident that their mission is characterized by the principle of social utility. Barbetta (2005) actually proposes to call them “private Foundations of redistribution[4]”.

[4] G. P. Barbetta in *Le Fondazioni bancarie*, a cura di G. Ponzanelli (2005), pg 179.

The banking Foundations can be seen as "modern redistribution instruments able to play a complementary role to that of the other actors in the Italian non-profit sector and to guarantee a pluralistic approach to some problems of our society[5]". By doing this, they can contribute to the solution of some of the failures of the State and the market by acting as an intermediary between them.

2. Foundations Charter[6]

In April 2012 the Assembly of the Association of Italian Saving Banks (Acri)[7] has unanimously approved the Foundations Charter (Carta delle Fondazioni) – a kind of voluntary and not binding code. The banking Foundations decided to adopt it as a guide in order to assure shared values in the field of governance and accountability, institutional activity and estate management. Given their fully autonomy, Foundations can only adopt this Charter as an inspiration. In order to implement the principles contained in the Charter of the Foundations they ought to include them in their statutes. This process of change has recently started. We now describe more in detail the content of the Charter.

2.1. Preamble

Banking Foundations are private and autonomous non-profit actors with important estates, necessary to raise the funds aimed to carry on their institutional activity: the distribution of resources for the social, economic and cultural development of their local area and of the country.

The Charter confirms the principles of autonomy and independence of the Foundations as their central peculiarities in acting not only as preliminary principle, but also as an instrument to accomplish their aims.

[5] G. P. Barbetta in *Patrimoni&Scopi. Per un'analisi economica delle fondazioni*. G. Turati, M. Piacenza, G. Segre (2008), pg 39 .
[6] http://www.acri.it/3_fond/3_fond_files/Carta_delle_Fondazioni.pdf.
[7] Associazione di Fondazioni e di Casse di Risparmio Spa

2.2. Governance

The Charter states that “the governance bodies of the Foundations, in addition to the president, are the guidance body, the administrative body and the control body”. In order to safeguard at best Foundations’ specific interests, the Charter relies on the competence and authority of the administrators, the publicity and transparency of their choice and nomination, representativeness in the composition of the bodies also through an “adequate gender presence”, other than independence, autonomy, responsibility, incompatibility and exact evaluation criteria for the entry or exit of a person from the Foundations themselves. Moreover, “to safeguard their independence and avoid conflicts of interest”, as the Charter states, “the presence into the different bodies of the Foundations is incompatible with any political appointment or nomination” (elective or administrative).

2.3. Institutional activity

Transparency, fairness in the decision process, accessibility of the information, accountability, dissemination of the best practices are the main criteria fixed by the Charter as conditions for a correct institutional activity, meant as complementary to public intervention and capable to become a catalyst for the mobilization of third parties. “The targeting of the initiatives to be supported – as the Charter underlines – is determined on the basis of defined criteria able to reach at best mission’s objectives".

A special emphasis is put on the need to work following criteria of frugality, pursue objectives in terms of efficiency and effectiveness, and to adopt active budget policies aimed at stabilizing the grants over time and to determine an adequate destination of the proceeds among annual, pluriannual and continuous commitments.

2.4. Estate management

The various guidelines concerning estate management are based on diversification and the control of the risk and are functional to “generate profitability able to pursue the mission objectives” as well as to safeguard the integrity of the estate itself.

The use of the estate needs a careful strategic planning "conveniently balancing the flow of short and middle-long term profits, even through a diversification among investment instruments". Investment decisions are fixed through a comparative method among alternative opportunities; it considers objective evaluation criteria and ethical elements to exclude "investments linked with situations of violation of human rights and respecting the laws about environmental protection as well as historical, arts and cultural estate". It is also meaningful the reference to the use of the estate in connection with the institutional mission of the Foundations: "The investment of the estate, other than a way to create the earnings necessary to develop institutional activities, may also represent a direct instrument to support initiatives linked to the purposes of the Foundation (ethical investments) while always safeguarding the estate value and an adequate profitability".

3. The actual situation of banking Foundations

As "private Foundations born out of a public decree[8]", Italian banking Foundations have only tentatively defined their mission. Their peculiar origin with respect to traditional private Foundations (i.e. the lack of a founder capable to define mission and objectives), together with the non linear path followed by the evolution of their legal framework, has influenced the exact determination of their mission and the identification of the specific objectives inherent to their management.

Nowadays there are 88 Italian banking Foundations. Their number is the same as at the moment of their birth, when it coincided with the sum of at the time existing saving and public banks, but practically all of them have been transformed in line with the content of the new legislation.

Acri is now representing the banking Foundations, even if originally it was (and still is) the Association of saving banks. It classifies the Foundations on the basis of size measured by the estate[9].

[8] G. P. Barbetta in *Patrimoni&Scopi. Per un'analisi economica delle fondazioni*. G. Turati, M. Piacenza, G. Segre (2008), p. 30.

[9] Since its origin ACRI has played the role of representative of the Banking Foundations; it publishes since 1995 an Annual Report on the banking foundations based on the analysis of the balance sheets adequately reclassified and containing also analytical information about the distribution activity. Such Report represents the most complete statistical source concerning the entire system of the Foundations, even if data refer to "balance sheets as sum" and therefore they

Table 2. Foundations by size				
Foundations' classification	Distribution			
	Foundations		Estate	
	Number		Range ('000 of euros)	Average (Millions of euros)
Large Foundations	18	20.5%	More than 600,000	1,727
Medium-large Foundations	17	19.3%	From 209,000 to 600,000	333
Medium Foundations	18	20.5%	From 130,000 to 209,000	169
Medium-small Foundations	17	19.3%	From 75,000 to 129,000	102
Small Foundations	18	20.5%	Less than a 75,000	38
Total Foundations	**88**	**100%**		

Their size, as well as their distribution within the country, properly reflects the size and geographical presence of the saving and public banks at the moment of the split and/or transformation. The analysis of the structure of the system of the banking Foundations shows two main aspects:

1. They are historically numerically limited (*numerus clausus*): the category is restricted. We envisage a process – athough difficult for historical, cultural and territorial reasons – of mergers among them, particularly among the smallest ones, in case the size and profitability of their estate should decrease substantially, therefore creating the absolute impossibility to *stay alone.* This is a realistic hypothesis also in light of the actual difficult economic trend in Italy.
2. Do Italian banking Foundations represent nowadays an atypical model? Actually not or, better said no more: "the sole element of their possible atypical nature is the amount (and origin) of their estate, which obviously influenced the legislator to create - among other things – specific rules for their financial management and to give some paternalistic advices[10]". Despite all, the tie with the "conferred bank" and the role played by the banking Foundations in their governance remain and are still evident. At the same time such ties have experienced several developments with reference, on

don't allow a detailed analysis of the differences between the structures of the statement of financial position and income statement.

[10] *Le Fondazioni bancarie*, a cura di G. Ponzanelli (2005), p. 75.

one side, to the specific destiny of the “conferred banks” and, on the other side, to the “maturing” of the banking foundatons’ mission.

3.1 Mission: value production for the community

Banking Foundations’ mission is stated by the legal framework and foresees the pursuit of two fundamental purposes:

1. Social utility;
2. Economic development of the territory[11].

To this aim, according to the prescriptions of their statutes and in connection with the territory (usually on provincial or regional scale), they act in specific fields regulated by law as “admitted sectors” – defined later on – and represent an original model within the deep Italian social pluralism. Inside this frame of reference, the banking Foundations have progressively focused their activities on the most relevant items for the community welfare, mostly supporting the research, the education, the art, the health system, the culture, the services to the weakest social classes, the conservation and the exploitation of environmental and landscape properties.

The banking Foundations act autonomously as private entities and fully comply to the Italian constitutional principle of horizontal subsidiarity (Art. 118 Italian Constitution) according to which intermediate social bodies are active entities complementary to the public administrations in the search and implementation of solutions to satisfy community needs. The main features of this “pure type” organization are its reliance upon the exclusive initiative of private subjects, an extraneousness (also cultural) to the sphere of the public sector and significant capital strength used to generate flows of resources and correct some social dysfunctions[12].

Each banking Foundation uses the “space” allowed by its wide statutory autonomy and defined by the statute itself as well as internal regulations. However some legal limits

[11] Art. 1, 2° subparagraph, d. lgs. n. 153/1999.
[12] *Patrimoni&Scopi. Per un’analisi economica delle fondazioni,* G. Turati, M. Piacenza, G. Segre (2008), pg XVIII.

exist concerning the specificities of the sectors of action and the protection of third parties (stakeholders). To guarantee this last category, the banking Foundations retaining a direct or indirect control in banks are subject to supervision by an authority of the Economy and Finance Ministry in charge to verify the compliance with transparency duties. The Authority itself is subjected to the publicity of its activity and to law prescriptions for its governing bodies. In particular, in terms of supervision, the Art. 2, 2^{nd} subparagraph d. lgs. N. 153/1999 prescribes that the surveillance has to “verify the observance of the law and statutes, the sound and prudent management of the banking Foundations, the profitability of their estates and the real protection of the interests included in the statutes“.

Even if an impressive cut of public interventions in fundamental economic and social sectors occurred in past, nowadays banking Foundations seem to know better and better their responsibilities for the development of local communities and also for the nation as a whole. This is partly due to the huge funds they administrate.

The transformation of the strategic and operational framework that has occurred can be described as follows: the banking Foundations have retired from the original role of mere “charity bodies” to progressively play a more important role into the local community of reference in terms of propulsion and innovation of territorial projects and as catalyst of resources. Consequently the original reference model, the one of grant making Foundations, got refined over time and became really different in comparison with the initial phase. From the point of view of the evolution of the legal framework, it is possible to point out a fundamental change in Foundations’ objective function. Before banking Foundation had to decide the order of priority for the distributions of their grants among the possible beneficiaries on the basis of the resources arising from their investments, specifically dividends from the “conferred bank“. Now we observe a sort of reversal in the management process. The Foundation first defines the feasibility of the social intervention in favour of the territory and estimates the resources required to implement it. Afterwards the Foundation starts to look for the necessary resources to secure the success of the project thus adopting more of a fund raising perspective. The dividends from the “conferred bank” are just one of the possible financial sources at Foundations’ disposal.

However it should be observed that the degree of transformation achieved along these lines varies among different Foundations and it depends on their operative dimension, organizational complexity as well as on the maturity in the interpretation of their identity.

The analysis of their actual activity needs to start from the examination of the size of their estate, the composition of the investments and their real diversification and, consequently, from the investigation of their effective dependence upon the profitability and dividend policy of the “conferred banks”.

The underliyng “production function” is based on the fact that the grant and mission related investment (MRI) policy has a global limit: the flow of profits from the investments – among them, from the dividends payed by the “conferred bank” and from the banks where the Foundation owns a shareholding which can ben progressively normalized, through a policy of prudent reserve funds, on the principle of the conservation of the estate.

The circuit may be summarized as follows:

- asset management on the basis of diversification with a constraint in terms of conservation of the estate (unavoidable control of the investment risks);
- stabilization of the distributions over time, also through a policy of prudent reserve funds;
- maximization of the effectiveness of the interventions put into practice.

3.2 Guidelines for the investment of the estate

With respect to the use of their resources and the achievement of an adequate return, banking Foundations must observe specific law prescriptions obliging them to invest their estate according to the principles of prudence and diversification “with the aim to maintain their value and get an adequate profitability” (as already said, but it is important to repeat this aspect). Therefore the Foundations can own shareholdings of companies and, if these are instrumental to their activity, they can control them. The Foundations can also invest up to 15% of their assets in real estate with a profit purpose. The exemption to the general principle of the adequate profitability is admitted only in presence of properties with an historical or artistic interest and a stable public destination or real estates used as headquarters of Foundations for its institutional activity or for the activity of the operating enterprises.

Then, it should be observed that, even if it doesn't clearly mention the field of responsible investments, the legislation for banking Foundations identifies criteria concerning the investment activity of the estate emphasizing, on the one side, the compliance to ethical principles and, on the other side, the institutional value of the investments and their effect on the community and the development of the territory.

In particular all the elements related to Mission Related Investments (MRI) are present in this recommendation:

- when it recommends to keep a link with the typical institutional aims of the Foundation and with the ones of their territory;

- with reference to investments in personal and real properties, when it mentions their instrumentality as unique exemption to the principle of the adequate profitability of the employment of the estate.

Even if the reasons underlying the investments correlated to Foundations' mission may be different, they can be summarized into two specific cases in point:

- First of all, such investment decisions allow Foundations to pursue the objectives linked to the mission with a long term perspective. Differently from the financing of projects through the use of donation resources, which normally takes place within one or two years, responsible investments can support long-term activities and build solid and stable basis for the fostered initiatives;
- Secondly, such investments create an important leverage and multiplicative effect either from a quantitative point of view or from an application scope. The initiatives are coherent with the mission and, at the same time, they generate resources to feed the ordinary activity of resources' dissemination. Moreover the field of action in the sectors of interest for the Foundations is enlarged by integrating the distribution activity with investments linked to adjacent sectors.

Possible instruments and technicalities of the MRI are the traditional ones of financial investments such as shares, bonds, funds, etc. Among them, as we will see later, shareholding has become the most widespread and predominant type given its ease of implementation. However the allocation of part of the estate into investment funds (dedicated expressly to the sectors of institutional action) is recently increasing its share.

Another form of MRI is community investing, a form of financing aimed to generate resources and opportunities for poor people or persons facing difficulties in accessing traditional credit financing channels, therefore favouring financial inclusion. Experiences of the Foundations in the microcredit sector in partnerships with active actors in this field such as Banca Popolare Etica, Banca Etica Adriatica, Banca Prossima, Estrabanca and other investment funds belong to this category. The value of these investments lies in the possibility to reach marginal sectors, persons or geographical areas and, therefore, to enlarge (and in some cases complete) the official financial market. The interventions do not only represent a real (financial) help for activities or groups of persons in other cases excluded or penalized, but they also have indirect benefits for the entire community where the project is fitted because of the social impact financing could have. Banking Foundations can further increase the social advantages of their activities by exerting a financial advice activity such as helping in the project phase, creating territorial networks, training in the economic/financial field, etc. These aspects characterize the financing operations for the third sector (or not-profit one) and, in particular, the microcredit and microfinance in developing countries or in other contexts with socio–economic marginalization. To summarize, such interventions produce virtuous effects even beyond the mere financing because they create growth processes not only from an economic, but also from a cultural point of view in the communities.

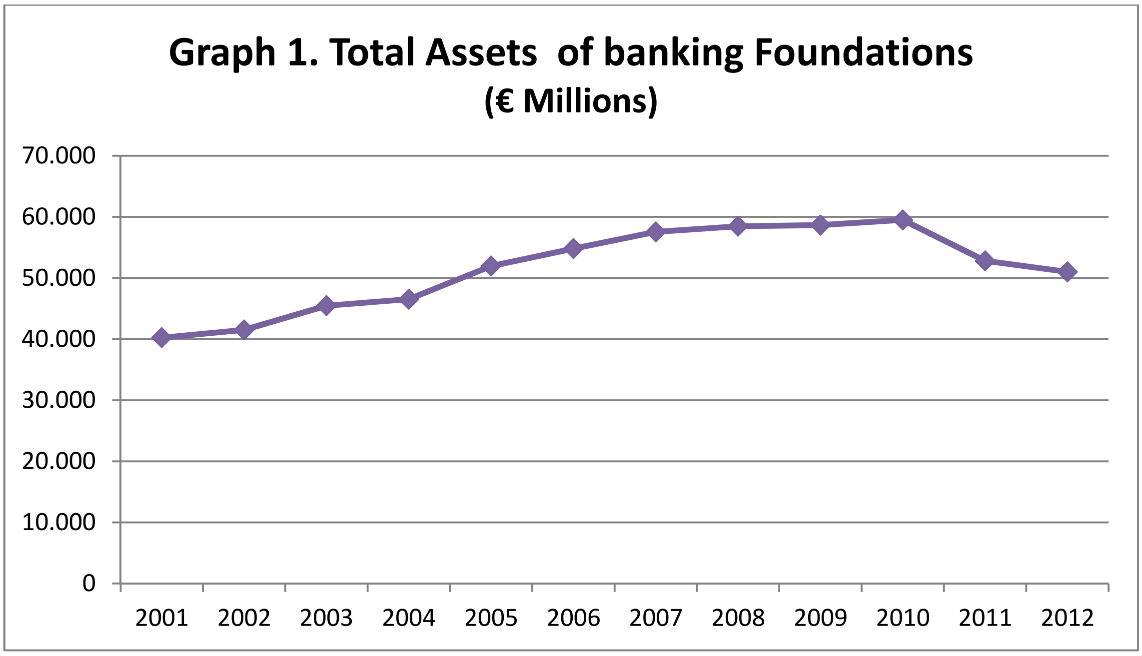
Another widespread example of estate's use for institutional purposes are the investments that are indirectly targeted to the economic development of the local community, the entire country or the specific sectors in which Foundation acts (for example to support the health system, research, culture or the infrastructural system). Also in this case, the modality of investment takes the traditional forms of share ownership in companies directly acting for the economic development of the local territory or at advantage of the entire country (in infrastructure, research, technological innovation, etc.) or via the participation in common initiatives of investment through real estate, funds specialized in venture capital or private equity operations.

Having completed our overview of the historical legal evolution and their actual status of Italian banking Foundations, we now move to the analysis of their economic characteristics.

Part II

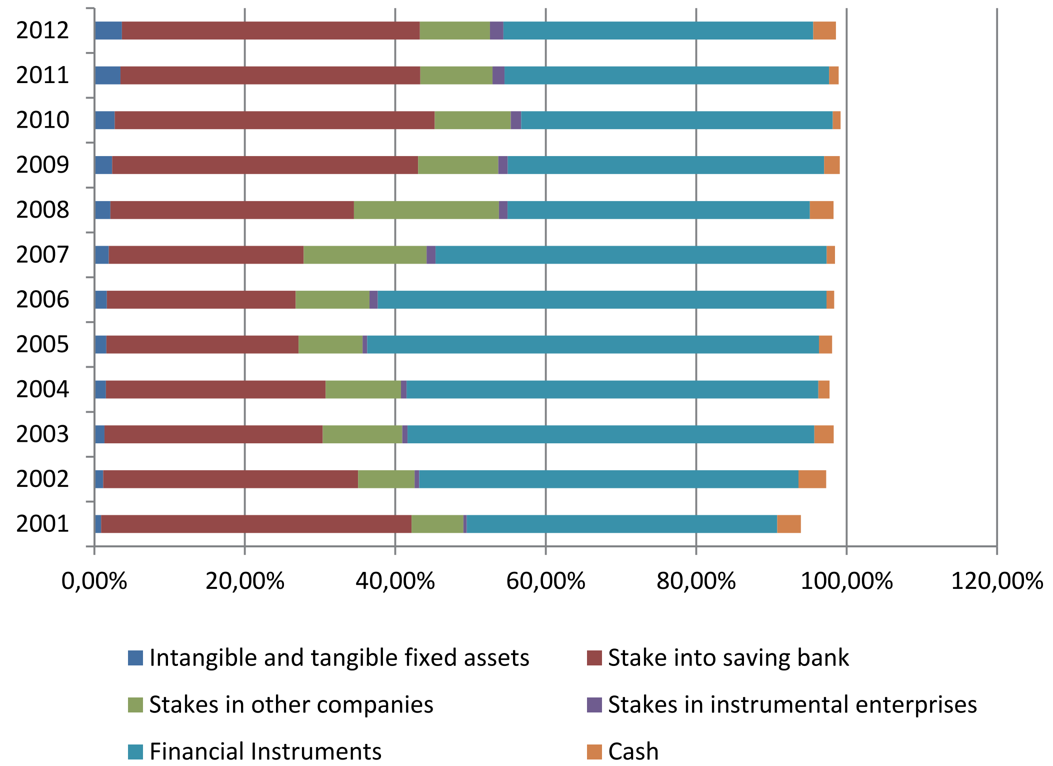
4. Assets: the investment side

As critical part of their business model, banking Foundations have to implement investment decisions that allow them to safeguard their estate and produce an adequate profit in order to fully accomplish their mission and institutional objectives. In the last 10 years Italian banking Foundations experienced an increase in total assets: from 40,230.4 € million in 2001 to 51,001.6 in 2012 (+ 27%). However in the last two years we observed a reduction in banking Foundations' investments due the financial crisis started in 2008.



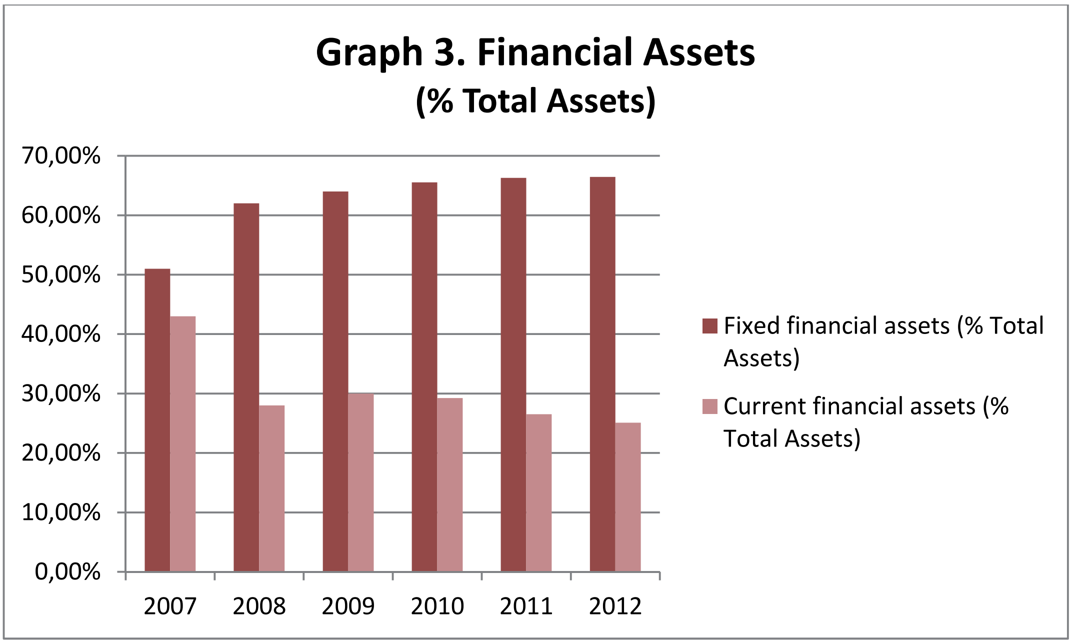
Changes in total assets of the banking Foundation have important implications for the pool of resources from which banking Foundations can draw to fulfill their mission. Nevertheless the magnitude of banking Foundations' investments is not the only factor that determines banking Foundations' ability to properly exert their role in society. The other relevant factor is the type of investments. Italian Law (L. 461/1998, article n. 2, letter c) explicitly states that banking Foundations' investments decisions must occur according to prudent risk criteria and risk diversification principles. Both principles are necessary to safeguard the medium/long term value of assets as well as to preserve their ability to produce a satisfactory flow of resources to pursue their institutional mission and objectives. In addition to define the principle of prudence and diversification of investments, Italian Law puts limits on the type and amount of investments. For instance banking Foundations can invest in real assets to be allocated to income only up to 15% of their total assets. Furthermore banking Foundations can have stakes in companies and, if they are ancillary to their business, they can have the control over them. Finally and above all, the law requires banking Foundations to gradually reduce their stake in the originating saving bank (ACRI, 2012). As we can see from Graph 2., the composition of banking Foundations' assets in the period 2001-2012 has experienced important modifications.

Graph 2. Composition of Total Assets
(% Total Assets)

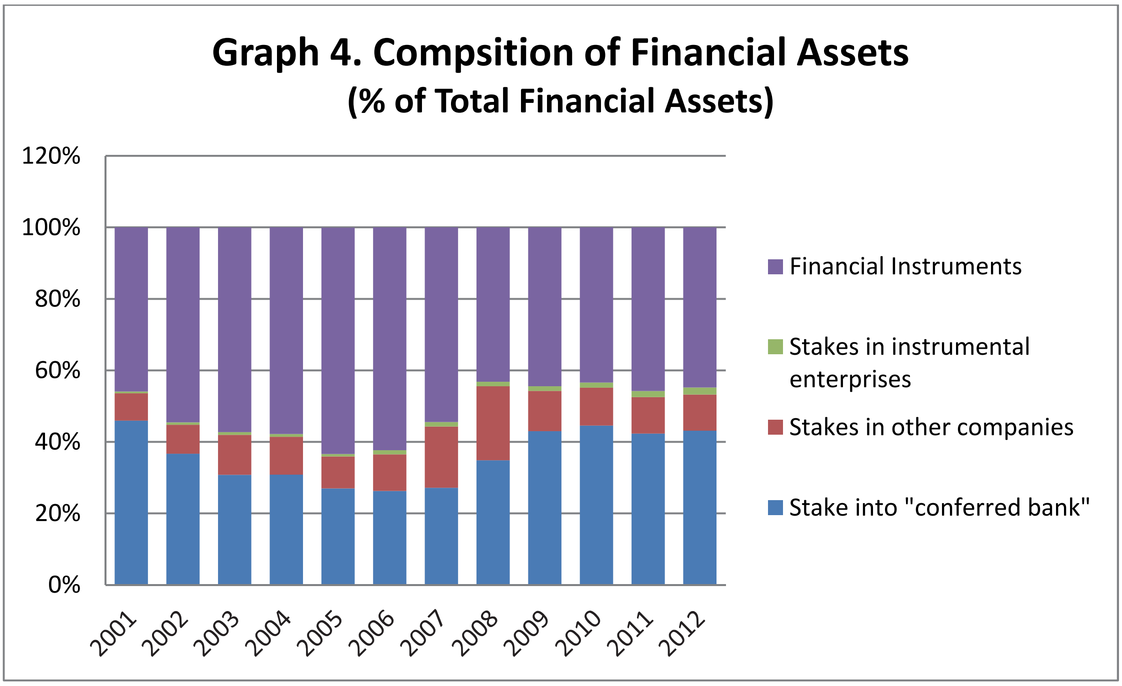


In particular, even if financial assets still represent the majority of banking Foundations' assets (with an average value of 98%), intangible and tangible fixed non-financial assets are becoming more and more relevant (they raised from 0.89% in 2001 to 3.66% in 2012). Although we are still talking about a very small percentage on an absolute scale, this increase has been particularly pronounced during the period of crisis: the average value during the period 2001-2006 was 1.36% while during the period 2007-2012 was 2.70% and the difference is statistically significant (at 1% level).

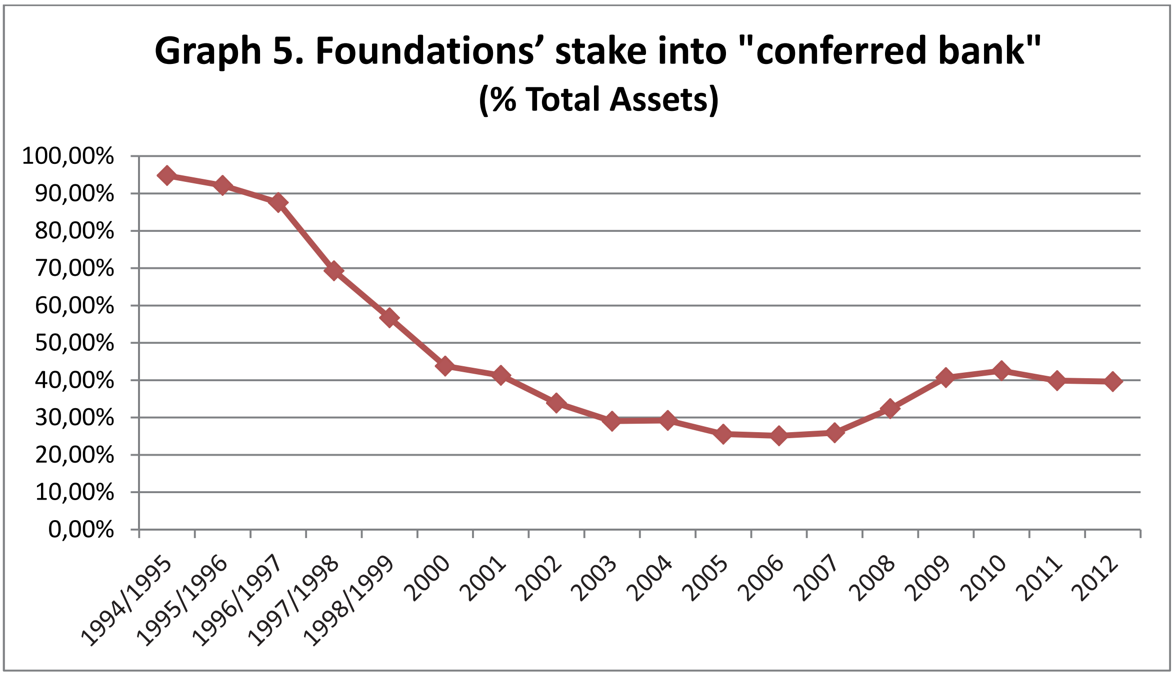
The tendency of banking Foundations to invest in assets with a longer time horizon has also affected the composition of financial assets. As we can observe from Graph 3., financial fixed assets prevail in the banking Foundations' portfolio, except for 5 banking Foundations, including the largest one in Italy (Cariplo), which decided in 2008 to transfer many holdings to an unfixed portfolio (Favelli and Clerici, 2013). The increase in fixed financial assets was particularly relevant after the beginning of the crisis (from 51% in 2007 to 66.47% in 2012) and was contemporary to a decline in the percentage of current financial assets (from 43% in 2007 to 25.1% in 2012).

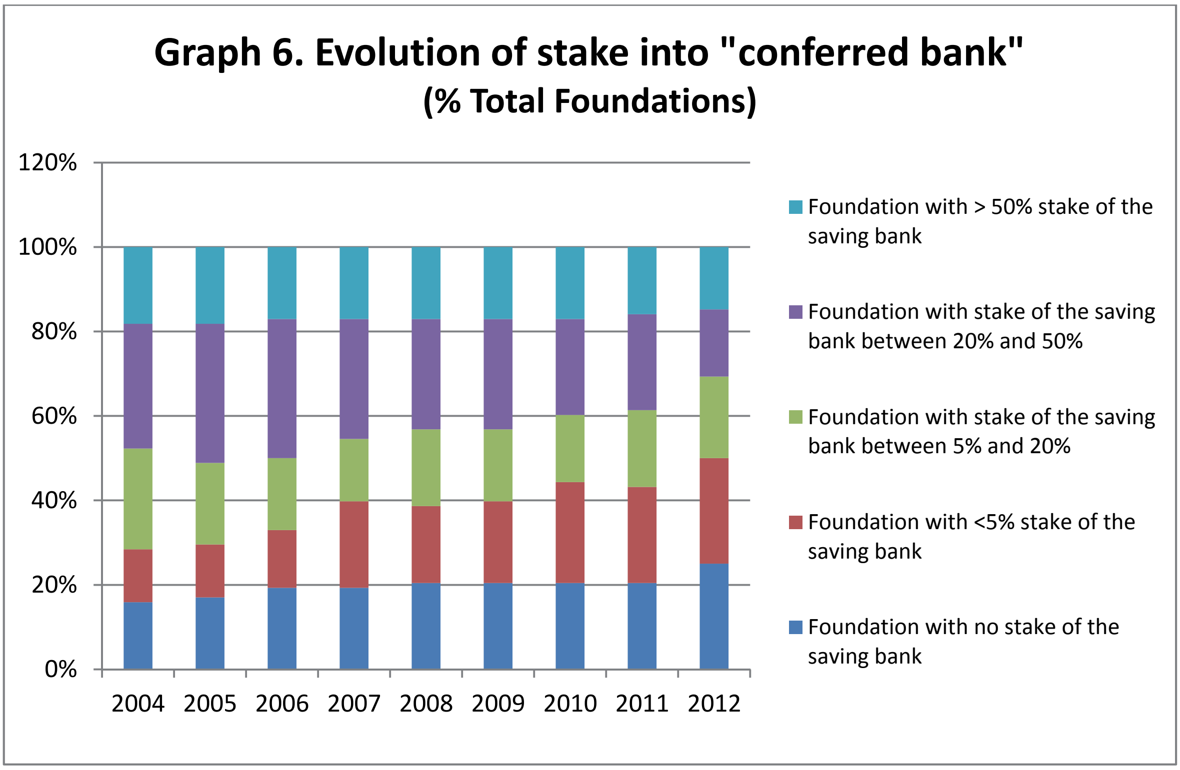


The increasing weight of long-term investments appears to be consistent with the principle established by Italian Law according to which banking Foundations should preserve their endowment by operating according to the principle of prudence. Above all the growing relevance of this type of investments had significant consequences for the sources of income (and hence grants) as well as profitability of banking Foundations as we will see in next sections. Moreover, if we look at the composition of financial assets (Graph 4.), we can see that banking Foundations invest in two main types of financial assets: financial instruments and stakes into the "conferred bank". Financial instruments represented 51.45% of financial assets on average. However the average value during the period of financial crisis is significantly lower than the years before (46% against 57%).



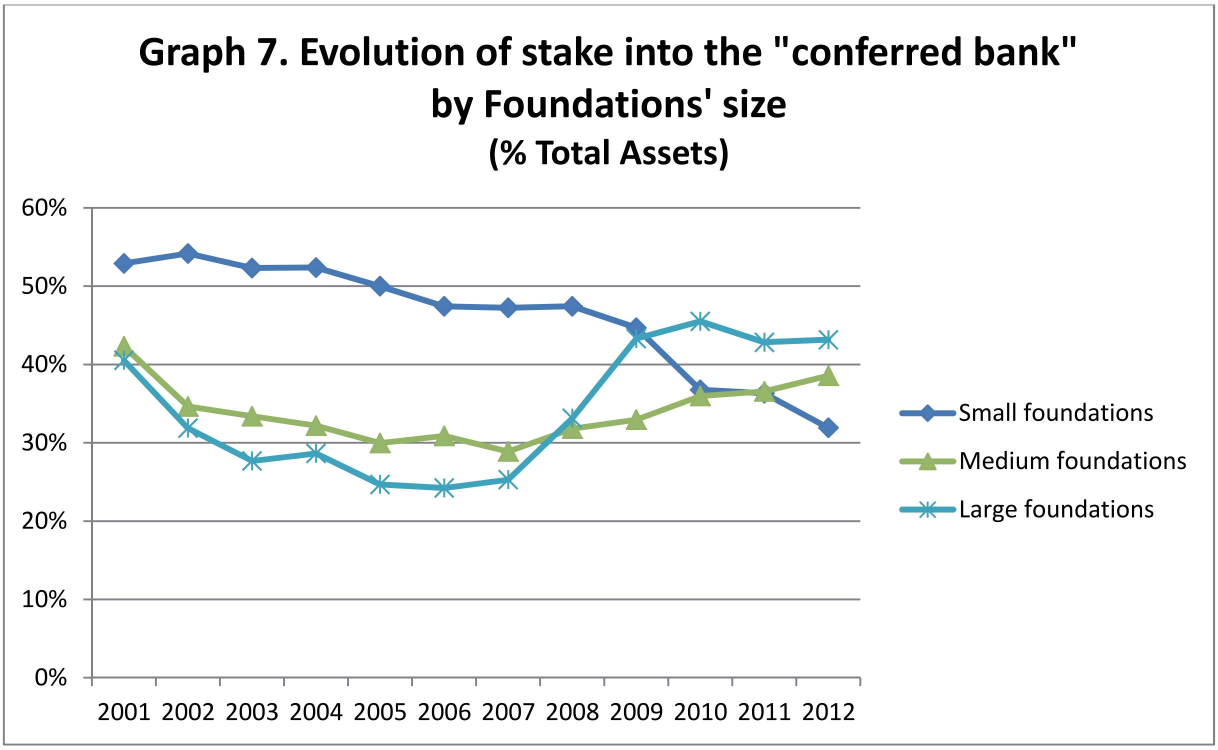
On the other hand, stakes into “conferred bank” represent 36% of financial assets and 33.75% of total assets of banking Foundations. This high percentage is an undeniable signal of the strong link still existing between banking Foundations and banks. Immediately after their creation, the estate of the banking Foundation was almost entirely invested in the “conferred bank”. Consequently the value of the estate was determined by the valuation of the shareholding in the “conferred bank”. Afterwards the level of diversification has increased as a consequences of different factors: the already described evolution of the legal framework which has mandated the gradual reduction of the participation in the “conferred bank” to less than 51% together with the effects caused by the concentration process that has taken place in the banking sector and the consequent changes in the shareholdings of Italian banks. This is documented in Graph 5. where we can see how, on average, the % of the total estate invested in the “conferred bank” has decreased from close to 100% in 1995 to 40% in 2012.





Graph 6. gives more details about this evolution because it shows us the population of Foundations divided according to the stake they have into the "conferred bank" (saving bank). We can notice a clear increase in the percentage of Foundations that have less than 5% stake going from 29% in 2004 to 50% in 2012. Combining the information of the

two graphs, we can see that the increase in the overall importance of the investment in the "conferred bank" experienced after the crisis is due to few big Foundations increasing their stake in their respective big "conferred banks", whereas the majority of the other Foundations kept on reducing their stake. This intuition is confirmed by Graph 7. where we can observe the evolution of the stake into the "conferred bank" broken by Foundation size.



In particular, despite Italian Law obliged banking Foundations to gradually decrease their stakes in saving banks, as we have mentioned before, big banking Foundations are still the major shareholder of lending institutions from which they were born (Faravelli and Clerici, 2013) and play a relevant strategic role since they have the power to choose the majority of banks' board of directors members.

Even if the presence of relevant connections between banks and banking Foundations is at odds with regulation, after the start of the crisis the intervention of big banking Foundations to help big credit institutions avoided the need to public support for troubled banks. Indeed, unlike other countries, the stability of Italian banks has been guaranteed more through private funds than through public funds. As outlined by the Bank of Italy and the Foundations Charter, banking Foundations' intervention to re-finance banks was essential to "contribute to the promotion of the economic development, in the light of the fact that a financial institution, which is solid and locally rooted, is a driving force behind the growth and the stabilization of the financial system both locally and nationally" (Faravelli and Clerici, 2013). The IMF has also highlighted the critical role played by banking Foundations during the crisis as "stable long-term bank shareholders". Nevertheless the IMF stressed how "the systemic presence [of banking Foundations] and peculiar governance structure warrant closer oversight" thus pointing out the negative consequences of a close connection between banking Foundations and banks. In particular the IMF suggested regulators to dampen the downside of such linkages by designing a legal framework requiring "greater transparency, better corporate governance and sound financial management, and encourage further diversification" (IMF, 2013). However, as we will see later on, the loyalty of banking Foundations to the banks has relevant consequences in terms of higher use of debt, drop in profitability and higher difficulties to maintain their grant levels. Moreover it also facilitates interferences of politics and public institutions into the credit sphere with potentially bad effects on bank efficiency (Faravelli and Clerici, 2013).

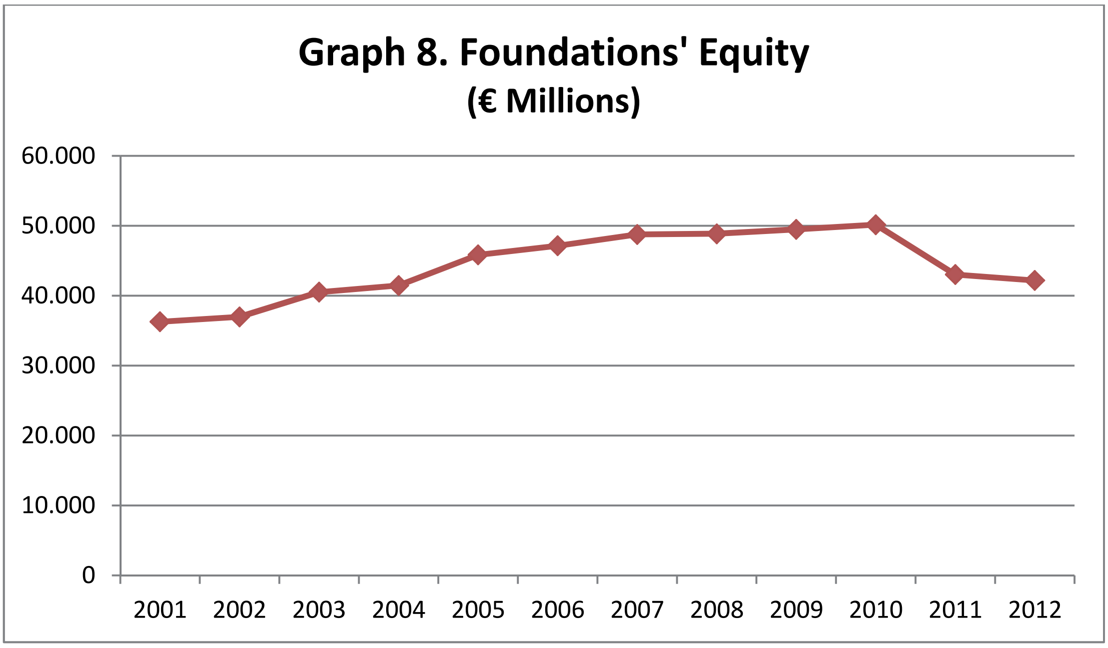
5. Liabilities and equity side: the financial structure

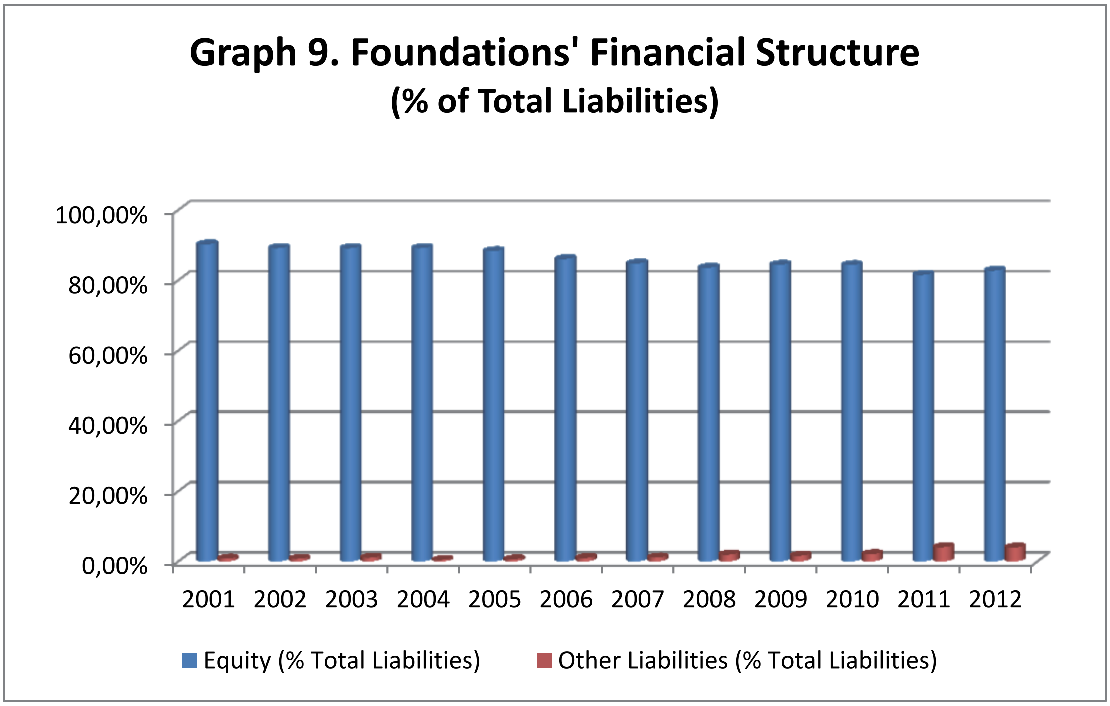
Banking Foundations equity is fundamental to ensure the pursuit of their mission over time. As required by the Law and by the Foundations Charter, one of the key objectives of banking Foundations is the safeguard of their equity capital. At 31/12/2012 the overall equity of Italian banking Foundations was 42,183 millions of euros with an annual growth rate of 1.5% (the annual inflation rate was 2.2%)[13]. In particular, after a long period in which banking Foundations increased their equity, in the last two years we have observed a drastic reduction: in 2010 the amount of banking Foundations's equity was equal to 50,160.6 millions while in 2012 the amount was 42,183 (i.e. a decrease of 16%).

[13] The 5 foundations with the highest value of equity are Fondazione Cariplo (6.551 millions), Compagnia San Paolo (5.622 millions), Fondazione Cassa di Risparmio Verona e Vicenza (2.654 millions) and Fondazione Cassa di Risparmio di Torino (1.917 millions). Fondazione Roma is the banking foundation without stakes into the saving bank with the highest value of equity (1.445 millions, 6th in the overall ranking). The poorest foundation is Fondazione Monte di Pietà di Vicenza with an equity value of 1.7 millions of euros.

Despite this recent trend, equity still is the main source of financing for banking Foundations and represents 86.06% of total liabilities.

Although the statutes allow debt for the banking Foundations, in general this is not considered a relevant funding and managerial tool. Debt usually represented a low percentage of banking Foundations' total liabilities and very few banking Foundations have contracted it to sustain their activities. A famous exception is MPS that has taken on debts to subscribe new capital of the "conferred bank". As a consequence of this strategy, the MPS Foundation is now in trouble.





However, if we analyze the trend, we can observe that Foundations have increased their use of debt to support their grant-making activity. In particular, while the percentage of other liabilities was equal to 0.78% in 2001, in 2012 the proportion had reached 3.95%.

Even if the level of debt is generally very low, we can still detect some trends through the data. The increase in debt has been particularly pronounced after the start of the financial crisis and was often due to the desire of banking Foundations to help their “conferred banks”, somehow contradicting the regulations. In table 3. we provide the correlation coefficients for the 2001-2012 series. Both the debt ratio (i.e debt divided by equity) and other liabilities (as percentage of total liabilities) are significantly and positively associated with the stake into the “conferred bank” as well as with intangible and tangible fixed assets. In other words, when banking Foundations undertake investments into the originating banks and/or into tangible and intangible fixed assets, their use of debt also increases. On the contrary, when banking Foundations invest in assets other than the originating banks or fixed assets, percentage of other liabilities and the debt ratio are lower. Therefore there seems to be a relevant association between the type of investments of banking Foundations and the source of financing. Above all, the positive association between the stake into the originating bank and debt suggests one potential downside of a close linkage between banking Foundations and originating banks.

Table 3: Correlations Financial Structure vs Investments			
	Stake into "conferred bank"	*Intangible and tangible fixed assets*	*Other assets*[14]
Other Liabilities	0.5678(*)	0.9360 (***)	-0.6451 (**)
Debt Ratio	0.5623(*)	0.9376 (***)	-0.6402 (**)

*Statistical significance: * 10%, ** 5%,*** 1%*[15]

Moreover, even if the weight of other liabilities and the debt ratio are relatively low, the stronger use of debt is negatively associated with the profitability of the banking Foundations. Table 4. shows that, as debt becomes more relevant, all profitability indexes are significantly lower (both from a statistical and economic point of view)[16].

Table 4: Correlations Financial Structure vs Profitability						
	Revenue/Equity	*Profit/Total Assets*	*Profit/Equity*	*Profit/Revenue*	*Institutional Activity/Equity*	*Grants*
Other Liabilities	-0.677 (**)	-0.848 (***)	-0.826 (***)	-0.918(***)	-0.797 (***)	-0.296
Debt Ratio	-0.674 (**)	-0.846 (***)	-0.825 (***)	-0.922 (***)	-0.795 (***)	-0.290

*Statistical significance: * 10%, ** 5%,*** 1%*

Finally we want to analyze the resources generated by the activities of banking Foundations that are reinvested into capital equity in order to preserve the viability of the Foundations themselves. In particular, according to the Law, banking Foundations can reinvest from a minimum of 20% to a maximum of 35% of their profit into equity (ACRI, 2012). However in the last decade, the allocations to equity varied between 28.44% and 51% with an average value equal to 32.84%.

This can be explained by the strong and positive correlation between the allocation to equity and profitability of banking Foundations. Indeed allocations to equity naturally

[14] Other assets include: stakes into other companies or instrumental enterprises and financial instruments

[15] The correlations reported in the table (as well as the descriptive statistics reported in subsequent pages and in the appendix) are computed by using the aggregate data (i.e. referring to the system of Italian banking Foundations) annually published by ACRI in their reports in the period 2001-2012.

[16] Instead, as the percentage of equity increases, profitability indexes are also higher. Furthermore, as the weight of equity increases, the percentage of intangible and tangible fixed assets is lower.

follow the profits' trend of banking Foundations. Therefore, as profitability improves, allocations to equity will also be higher and viceversa[17].

Table 5: Correlation Allocation to Equity and Profitability						
	Revenue/Equity	*Profit/Total Assets*	*Profit/Equity*	*Profit/Revenue*	*Institutional Activity/Equity*	*Grants*
Allocation to Equity	0.962 (***)	0.911 (***)	0.928 (***)	0.584 (**)	0.934 (***)	0.712 (*)

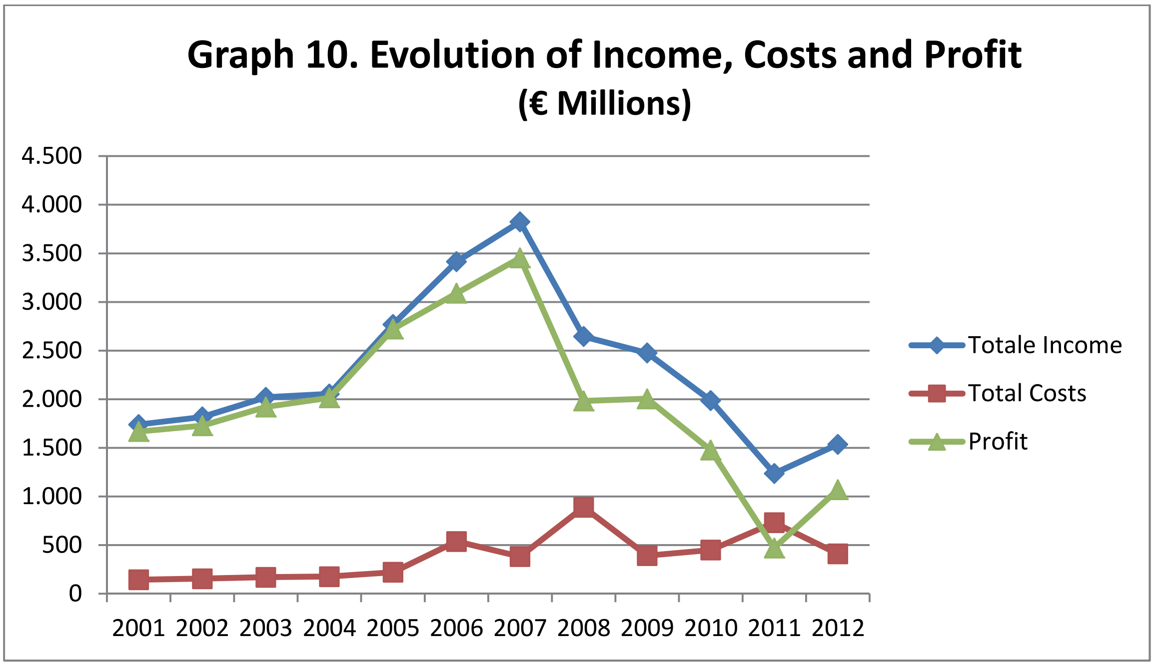
*Statistical significance: * 10%, ** 5%,*** 1%*

6. Foundations' returns and profitability

According to the principle 1.2 of Foundations Charter (2012), banking Foundations' investment decisions should guarantee the generation of satisfactory profit and, then, the pursuit of their mission as long-term investors and grant-making organizations. Our next step is to analyze whether the 88 banking Foundations have complied with such principles in the last decade.

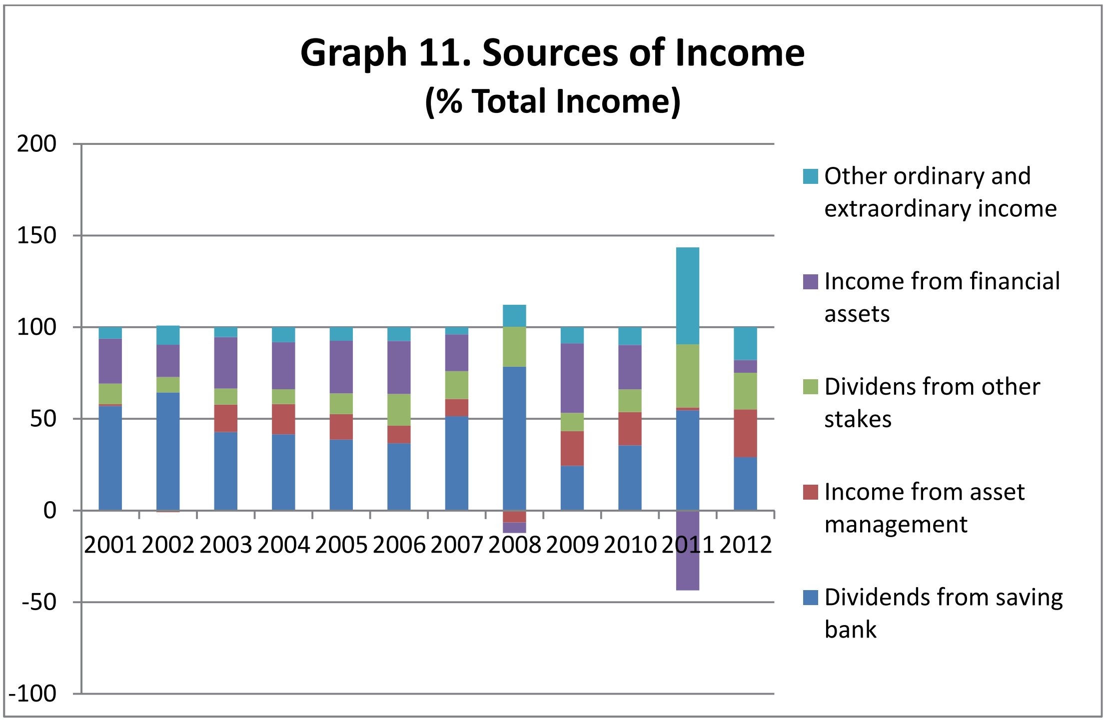
Both the magnitude and the composition of banking Foundations' income have been quite volatile during the period under consideration. As we have already seen for investments and financial structure, after a positive period of increase, banking Foundations' incomes have been negatively affected by the occurrence of financial crisis. Despite that, Italian banking Foundations were able to maintain positive profits with an average value for the overall period of 1,966.93 millions euros.

[17] Noteworthy we observe a negative correlation between allocation to equity and stake into saving bank (-0.8122, p-value<5%) and a positive with assets other than stakes into saving banks and intangible and tangible assets (0.8160, p-value< 5%).

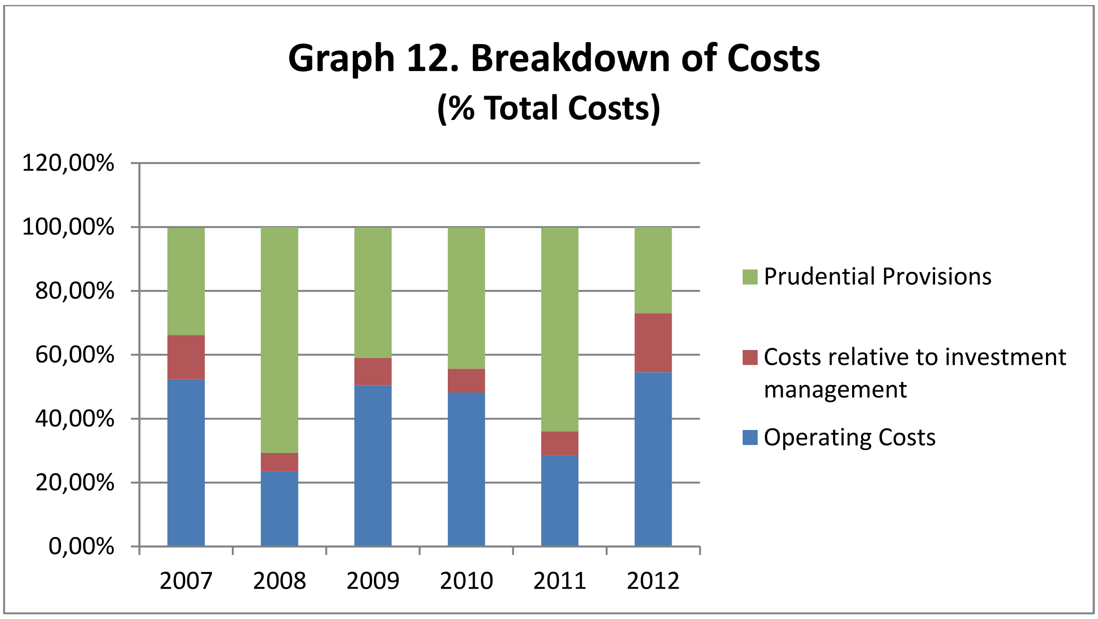


The last 10 years have been characterized by several mutations in the main sources of income. First of all the turbulent situation in financial markets led to a reduction of ordinary income for banking Foundations and to an increase of the incidence of the extraordinary component[18]. In 2001 extraordinary income represented 6.3% of total income while in 2012 the percentage was equal to 17.9%. Among the sources of ordinary income, dividends from the originating bank represented on average the main source of revenues of banking Foundations (46.24%), followed by financial assets (16.11%) and dividends from stakes into other companies (14.90%). However, even if dividends from the banks significantly contributed to the generation of income over the period under study, their percentage has been highly unstable going from a minimum of 24.4% (in 2009) to a maximum of 78.5% (in 2008). Finally it is worthwhile to notice the increasing relevance of asset management (from 1% in 2001 to 26.1% in 2012) for which regulators do not require an adequate rate of return (ACRI, 2012).

[18] Provisions releases, winfdfall gains, unrealized gains on assets etc.

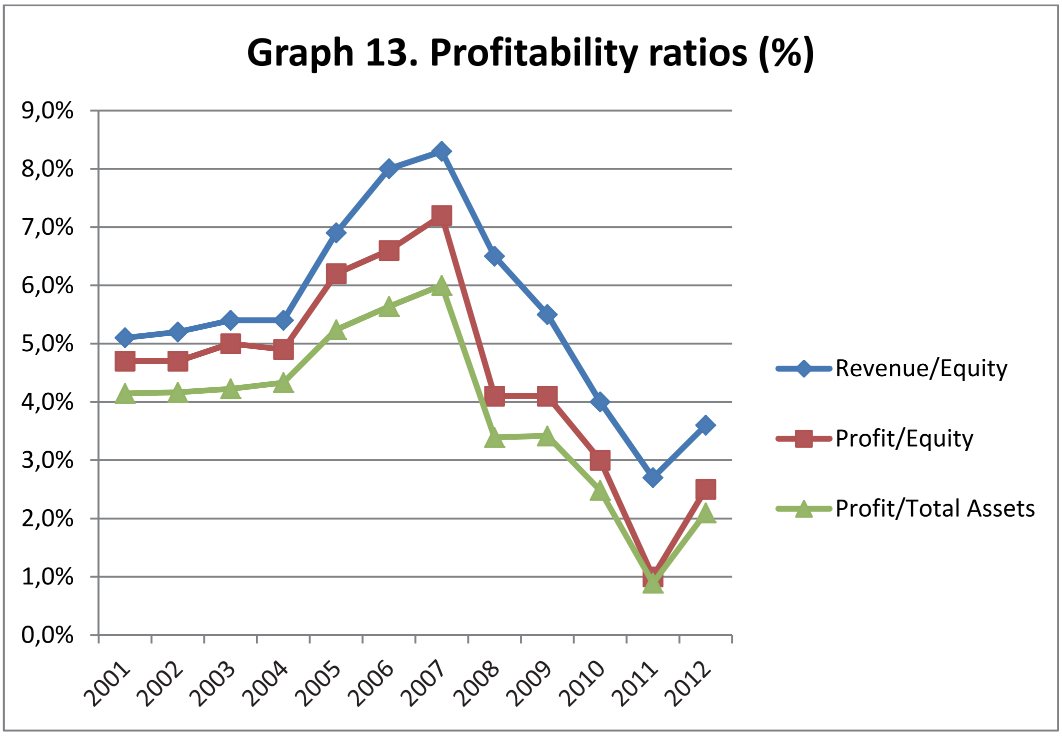


Moving to costs, we observe a constant increase in their amount from 144.50 millions euros in 2001 (8.3% of income) to 410.7 millions euros in 2012 (26.75%) with a peak of 889.7 in 2008 (33.64%). The main sources of costs are represented by prudential provisions and operating expenses (i.e. consulting fees and external collaborations, provisions for future risks) representing 46.64% and 42.92% of the total costs for the period 2007-2012, respectively.



The high weight of operating costs is primarily due to the remuneration of workforce and, above all, of statutory boards. In particular the increasing number of employees hired by banking Foundations (in 2012 the workforce exceeded one thousand units, namely 11.6 employees for each Foundation, while in 2006 the number of workers was equal to 800 units) can explain the escalation in banking Foundations' personnel costs (in 2012 they were equal to 61.3 millions, 15% of total costs). Moreover banking Foundations bear high fixed costs for their statutory bodies. In recent years costs associated to the statutory boards grew from 1.5% of total income in 2006 to 4% in 2011 and 3% in 2012, as a consequence of reduction in income but also of their "sticky" nature.

About the return ratios (revenue/equity; profit/equity; profit/total assets), all exhibited a similar trend during the period under study: they increased in the period 2001-2007 (all achieved their respective maximum value in 2007) and then decreased when financial crisis started.



Consistently with the claim of many that banking Foundations have to diversify their investments in order to generate higher revenues, the observed drop in the returns of investments and equity is associated with an increase of investments into “conferred banks” and intangible and tangible fixed assets, as we can see from the table below.

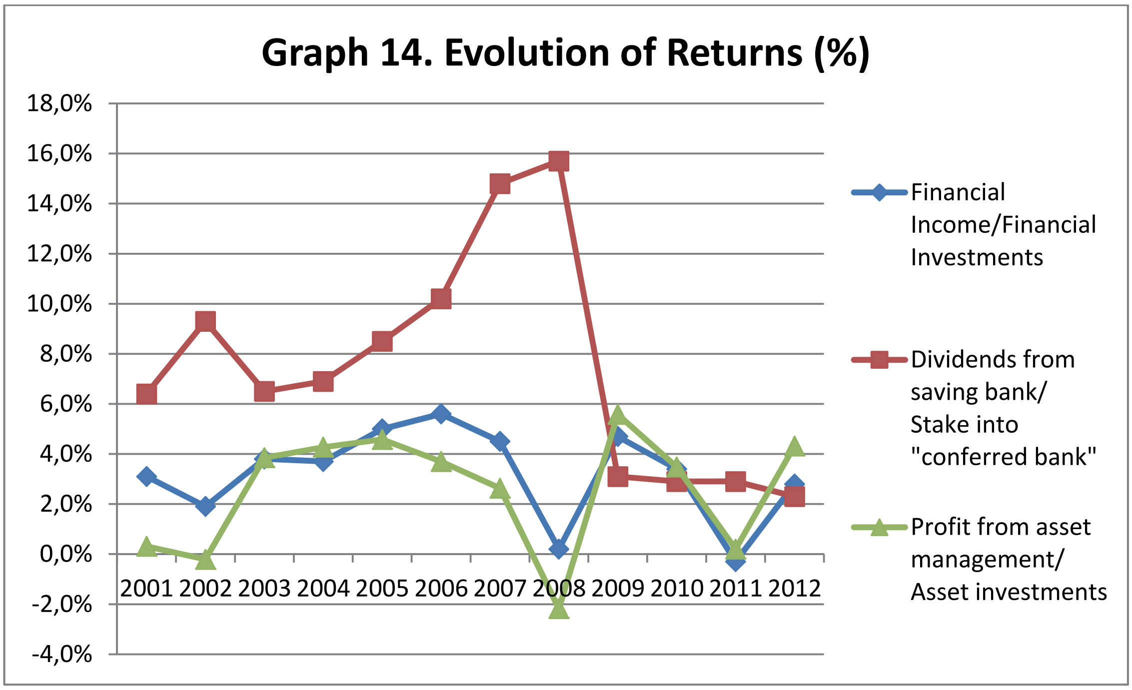
Table 6. Correlations Returns Vs Investments

	Stake into “conferred bank”	*Intangible and tangible fixed assets*	*Other assets*	*Current financial Assets*	*Fixed Financial Assets*
Revenue/ Equity	-0.802 (***)	-0.563 (*)	0.8189 (***)	0.824**	-0.901***
Profit/Equity	-0.801 (***)	-0.726 (***)	0.838 (***)	0.898**	-0.925***
Profit/Total Assets	-0.796 (***)	-0.757 (***)	0.837 (***)	0.903**	-0.929***

*Statistical significance: * 10%, ** 5%,*** 1%*

In particular the table points out how the choice of banking Foundations to help the originating bank to recapitalize as well as to allocate more resources into fixed assets (tangible, intangible but also financial) had negative consequences in terms of profitability and, then, on banking Foundations’ ability to generate funds for their grant-making and institutional activity. One exception is represented by Cariplo banking Foundation. In fact, even if it has few fixed assets and a low percentage of shares in its bank, it has an average return on equity (2.7%) among the lowest. Hence the Cariplo case shows that this strategy does not necessarily produce a greater profitability, since it is below the levels set by the banking Foundation rules in the management of its assets (Faravelli and Clerici, 2013).

It is interesting to look at the returns of the different types of investments (e.g. financial assets, stakes into saving bank and asset management). From Graph 14. we can observe quite different trends.



Stakes into the originating saving bank yield an average return of 7.46%, the highest one among the activities under consideration. At the same time the return from stakes into the saving bank is the most volatile and unstable (the standard deviation has been equal to 4.5 and the returns ranged from a minimum of 2.3% to a maximum of 15.70%). Noteworthy the return from stakes into the saving bank is negatively and significantly associated with the percentage of assets invested into the saving bank (correlation coefficient is equal to -0.6871 with a p-value lower than 5%). In other words a higher stakes into the saving bank is associated with a lower return from the investment. In order to understand this result we have to focus on the period 2009-2012. As we noticed before, in these years big Foundations decided to help their originating banks and they financed their capital increase. However, exactly because of the difficulties that these banks were experiencing, their ability to pay dividends was significantly decreased. Hence this investment that used to be the most profitable became less profitable and negatively affected the overall profitability of the Foundations.

Table 7. Descriptive Statistics of profitability ratios – 2001-2012						
	Revenue/Equity	*Profit/ Total Assets*	*Profit/ Equity*	*Financial Income/ Financial Assets*	*Dividends from "conferredbanks"/ stake into "conferred bank"*	*Profit from Asset management/Asset investments*
Mean	5.55%	3.84%	4.50%	3.20%	7.46%	2.54%
Standard deviation	1.67	1.149	1.751	1.82	4.5	2.4
Minimum	2.70%	0.89%	1.00%	-0.30%	2.30%	-2.18%
Maximum	8.30%	6%	7.20%	5.60%	15.70%	5.58%
Range	5.60%	5.11%	6.20%	5.90%	13.40%	7.76%

Despite a raise in investments in asset management, the return from asset management activity is the lowest one (equal to 2.54% on average) among those under consideration. In addition 24.05% of banking Foundations with asset management activity reported a loss during the period under consideration. The low profitability of this type of activity is not at odds with the regulation. Indeed the Italian legal frameworks allows a departure from the general profitability in the case of properties of historical or artistic interest with stable public destination and/or real property used as headquarters of the banking Foundation or instrumental to its activity (ACRI, 2012).

Finally the returns from financial activity yielded an average return equal to 3.2%. The returns were more stable than the other two types of activities (the standard deviation is equal to 1.82 against 4.5 and 2.4 of stakes into saving banks and asset management, respectively).

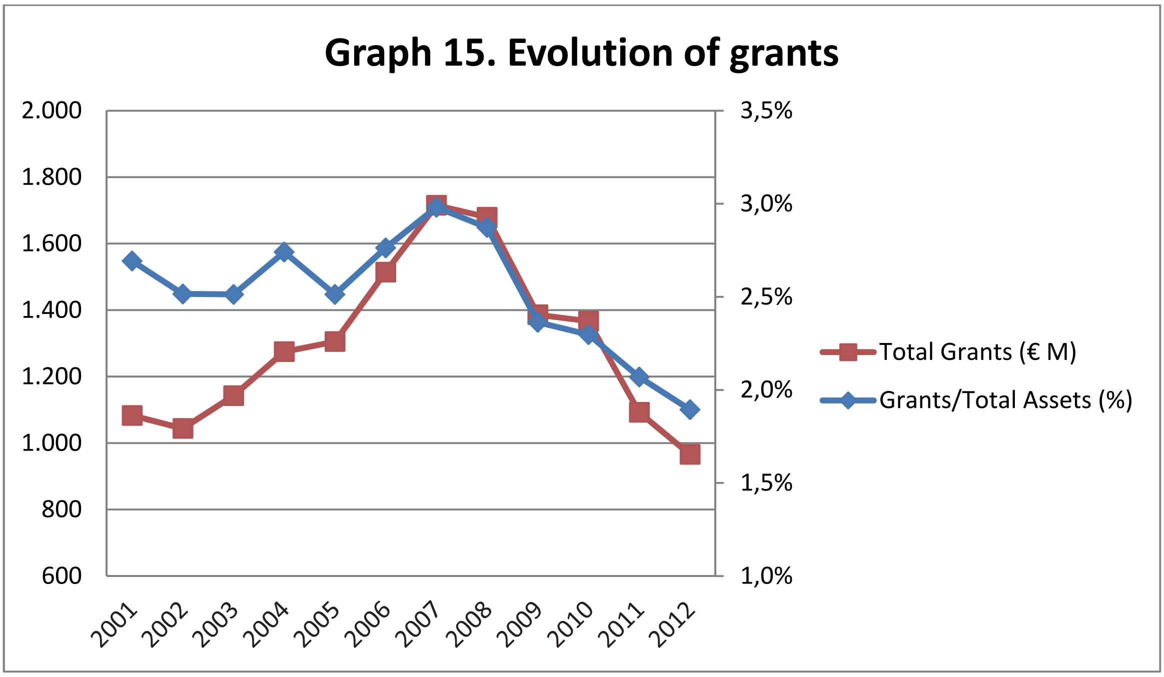
7. Grant-making activity

7.1 Traditional Grant-making activity

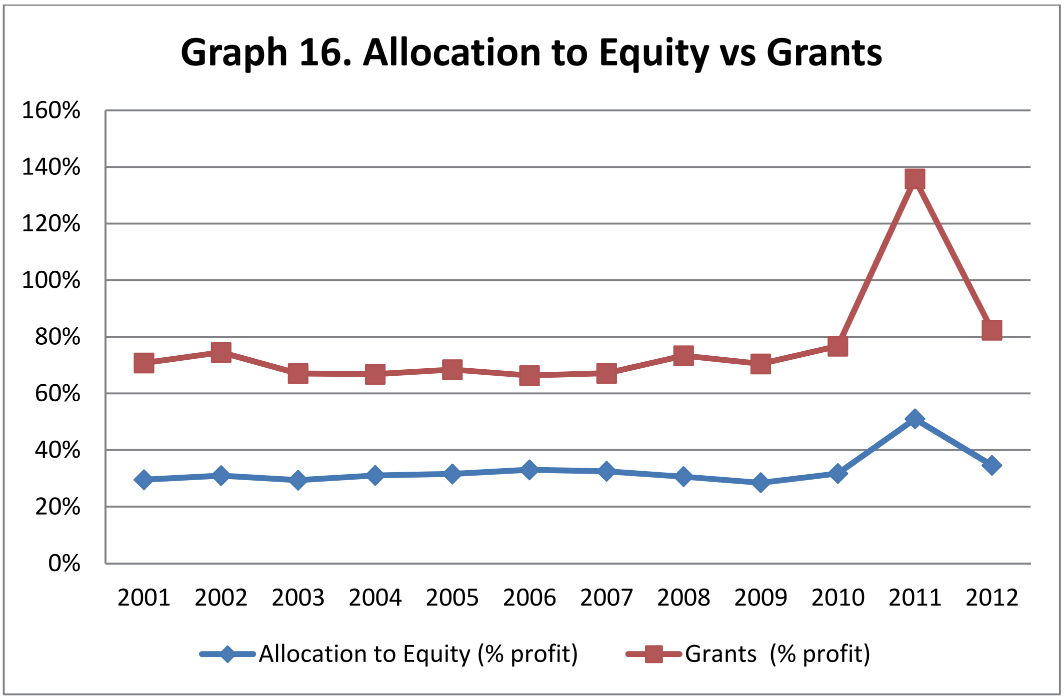
Consistently with their nature, banking Foundations need, on one side, to maximize the profitability of their assets, but, on the other side, they are also non-profit organizations providing resources for social utility and economic development of local territories. During the period under study banking Foundations were able to grant resources for 15,670 millions euros with a maximum annual value of 1.7 billion in 2007 and undertook 300,739 projects with an average value of 52,000 euro. Their grant-making capability (that is the relation between the amount of grants and the Foundation assets) did not experience relevant variations over time with an average value equal to 2.517%. However, after the occurrence of the financial crisis, there has been a substantial reduction in grants (-43.7%) and grant-making capability (-36.57%). For instance in 2012 banking Foundations provided 965.8 millions (with an average of 11 millions per Foundation) against 1,715.1 millions delivered in 2007. These relevant decreases in the grants and grant-making capabilities represent a menace to the relevance of banking Foundations from a social and local point of view but also to their ability to sustain territory and local communities.

Table 8. Descritpive statistics: Total grants 2001 - 2012

	Grants (€ '000)	*Grants/Total Assets*
Mean	1297.517	2.517%
Standard deviation	246.309	0.322
Minimum	965.8	1.894%
Maximum	1715.4	2.981%
Range	749.6	1.087



The reduction in grants that we observe can be justified by the decrease in profitability that banking Foundations experienced during the period of crisis rather than by a diverse allocation of profit. Indeed, as we can see from Graph 16., the proportion of profit allocated to grants was quite stable during the period under consideration with and average value equal to 76.63%. It is interesting to notice how in 2011 Foundations needed to use more resources than profit in order to sustain their level of grant activity. Hence in that year most of the profir had to be allocated to equity and grant activity was financed through retained profits from previous years.



The strong connections between ability of banking Foundations to allocate resources to their grant-making activities and profitability is evident if we look at the correlations between amount of grants deliberated by banking Foundations (both in absolute value and in relation to total assets) and return on equity and assets. As we can see from table 9, all correlations are high and positive providing evidence of a sound linkage between the profitability of banking Foundations and their ability to maintain their grant-making activity. Hence the capability of banking Foundations to maintain an adequate return and level of profitability appears to be crucial to exert their main grant-making activity and pursue their social mission.

Table 9. Correlations Grants vs Profitability			
	Revenue/Equity	*Profit/ Total Assets*	*Profit/ Equity*
Grants	0.744 (***)	0.487	0.527 (*)
Grants/Total assets	0.829 (***)	0.797 (***)	0.794 (***)

*Statistical significance: * 10%, ** 5%,*** 1%*

Faravelli and Clerici (2013) contend that the ability of banking Foundations to generate stable flows of grants at advantage of their local communities is related to the level of investment diversification achieved by the entities. According to them, the concentration of banking Foundations' assets into a single investment should hinder their ability to keep the expected grant levels by exposing them to higher risk. Those arguments are supported by prior works investigating banking Foundations located in the Northeast of Italy during the period 1994-1999 (Funari and Rizzi, 2003; Filtri and Guglielmi, 2012) but also by the table reported below.

Table 10. Correlations Grants vs Investments			
	Stake into "conferred bank"	*Intangible and tangible fixed assets*	*Other assets*
Grants	-0.466	-0.117	0.450
Grants/Total Assets	-0.638 (**)	-0.736 (***)	0.686 (**)

*Statistical significance: * 10%, ** 5%,*** 1%*

Higher stakes in originating saving banks ("conferred banks") as well as greater proportion of intangible and tangible fixed assets are negatively related to the level of grants and grant-making capability of banking Foundations. Instead investments in assets other than saving banks and fixed assets are positively associated to grant-making activity of banking Foundations. These findings support the idea that banking Foundations need to diversify their investments in order to achieve their objectives. Furthermore they highlight how the mere diversification could not be enough to assure the pursuit of institutional mission. Foundations should carefully choose how to diversify their portfolios and assess to what extent every specific investment can be beneficial for their grant-making activity.

As highlighted before, even if Foundations are autonomous, the Law forces them to operate only within the following areas[19]:

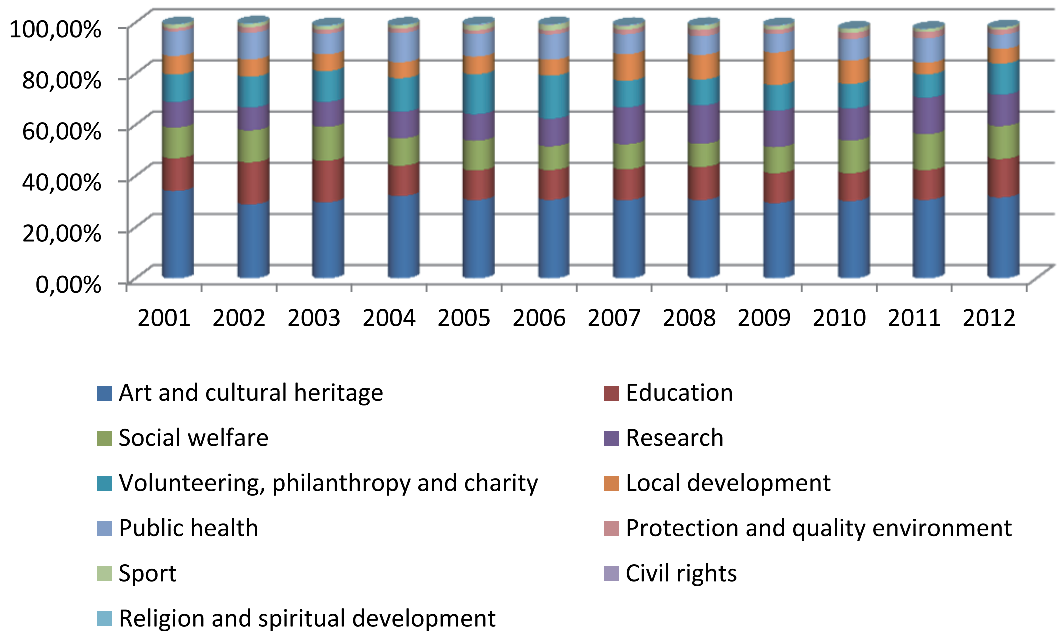
1. Family and related values;
2. Youth education and development;
3. Education, training, including the purchase of published material for schools;
4. Voluntary work, philantropy and charity;
5. Religion and spritual development;
6. Crime prevention and public security;
7. Food safety and quality agriculture;
8. Local development and local social housing;
9. Consumer protection;
10. Civil defence;
11. Public health, rehabilitation and preventive medicine;
12. Sport;
13. Prevention and treatment of drug addictions;
14. Mental disorders;
15. Technological and scientific research;
16. Environmental quality and protection;
17. Art, activities and cultural heritage;
18. Realization of public works;
19. Elderly care;
20. Civil rights;
21. Infrastructural investments.

[19] D.lgs. 17/5/1999, n. 153, art. 1, comma 1, lettera c-bis), e d.lgs. 12/4/2006, n. 163, artt. 153, comma 2, art. 172, comma 6.

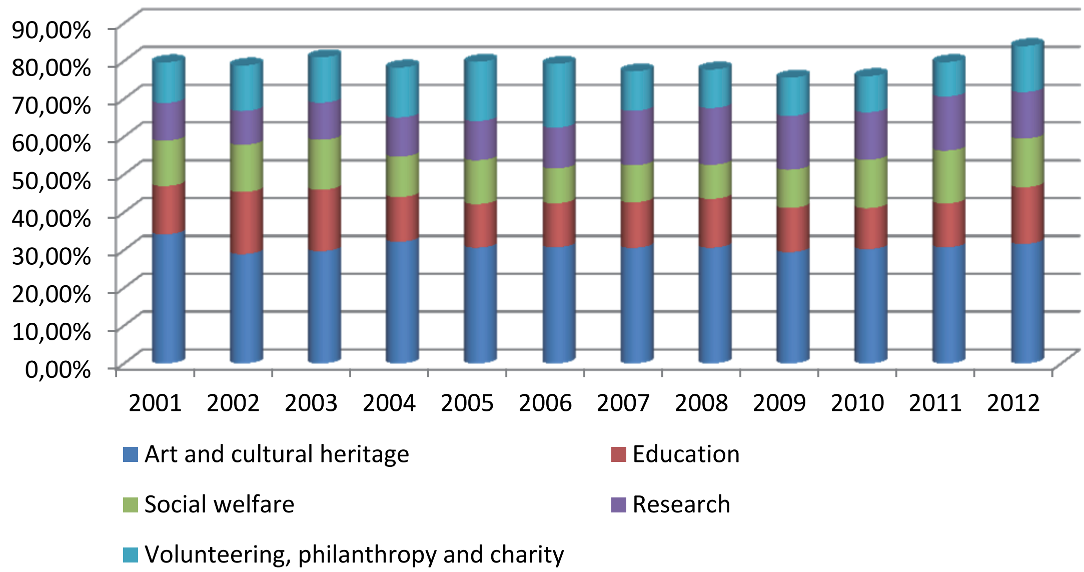
Table 11. Distribution of grants (%) – Recent years								
Beneficiary sectors[20]	*Disbursements 2012*				*Disbursements 2011*			
	Amounts (€ M)	*% Amounts*	*Number of projects*	*% Number*	*Amounts (€ M)*	*% Amounts*	*Number of projects*	*% Number*
Art, activities and cultural heritage	305.3	31.60%	7.872	35.50%	335.4	31%	9,179	36.90%
Voluntary work, philanthropy and charity	192.8	20.00%	4.410	19.90%	192.2	18%	4,666	18.70%
Education, training, including the purchase of published material for schools	136	14.10%	2.949	13.30%	116.1	11%	3,377	13.60%
Technological and scientific research	118.5	12.30%	1.244	5.60%	156.3	14%	1,506	6.00%
Public health, rehabilitation and preventive medicine	54.2	5.60%	1.092	4.90%	101.8	9%	1,008	4.00%
Local development and local social housing	34.8	3.60%	1.187	5.30%	44.2	4%	1,292	5.20%
Youth education and development	33.1	3.40%	1.056	4.80%	36.3	3%	1,165	4.70%
Elderly care	22.1	2.30%	454	2.00%	34	3%	483	1.90%
Realization of public works	20.5	2.10%	192	0.90%	5.8	1%	159	0.60%
Environmental quality & protection	18.3	1.90%	345	1.60%	27.6	3%	417	1.70%
Family and related values	17.4	1.80%	218	1.00%	27	3%	346	1.40%
Sport	6	0.60%	859	3.90%	6.8	1%	984	4.00%
Civil defence	4.4	0.50%	178	0.80%	3.6	0%	149	0.60%
Prevention and treatment of drug addictions	0.7	0.10%	32	0.10%	2.4	0%	52	0.20%
Crime prevention and public safety	0.4	0.00%	17	0.10%	0.2	0%	14	0.10%
Mental disorders	0.4	0.00%	37	0.20%	1.8	0%	40	0.20%
Civil rights	0.3	0.00%	32	0.10%	0.3	0%	22	0.10%
Religion and spiritual development	0.2	0.00%	18	0.10%	0.5	0%	35	0.10%
Food safety & agricultural quality	0.2	0.00%	9	0.00%	0	0%	9	0.00%
Consumer protection	0.1	0.00%	3	0.00%	0.1	0%	3	0.00%
Infrastructural investments	0	0.00%	0	0.00%	0	0%	0	0.00%
Total	965.8	100%	22204	100%	1,092.5	100%	24,906	100%

[20] Diciottesimo Rapporto ACRI, pg 94.

Table 17. Distribution of grants (%) Historical Evolution (I)

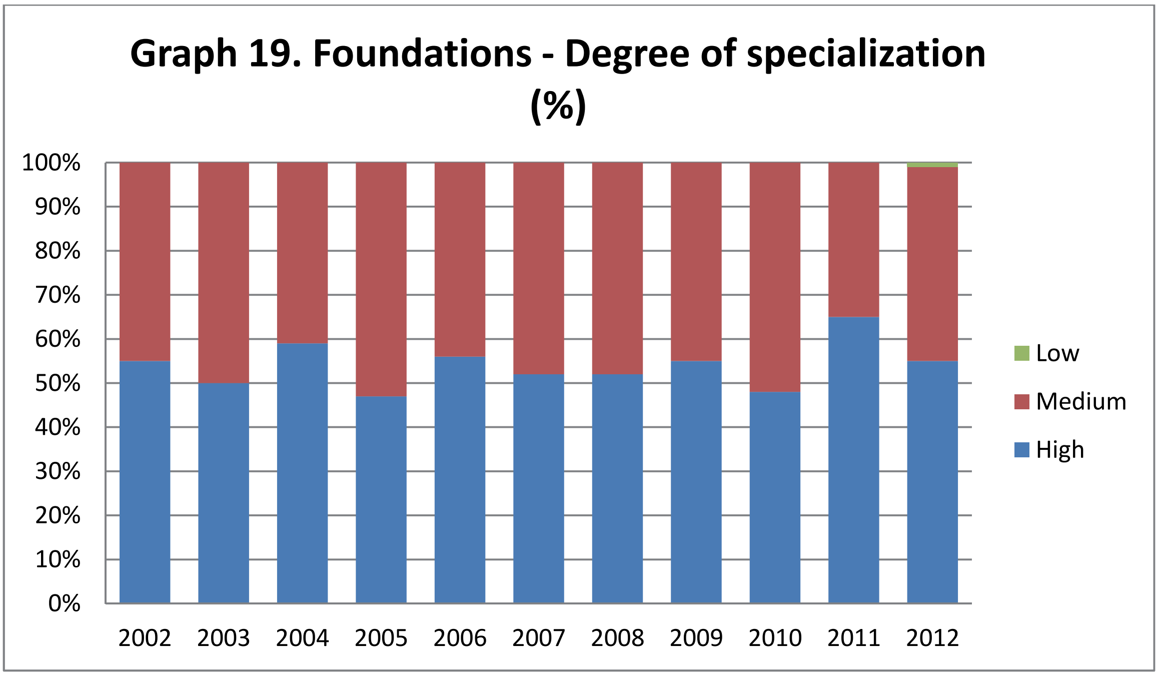


Graph 18. Distribution of grants (%) Historical Evolution (II)



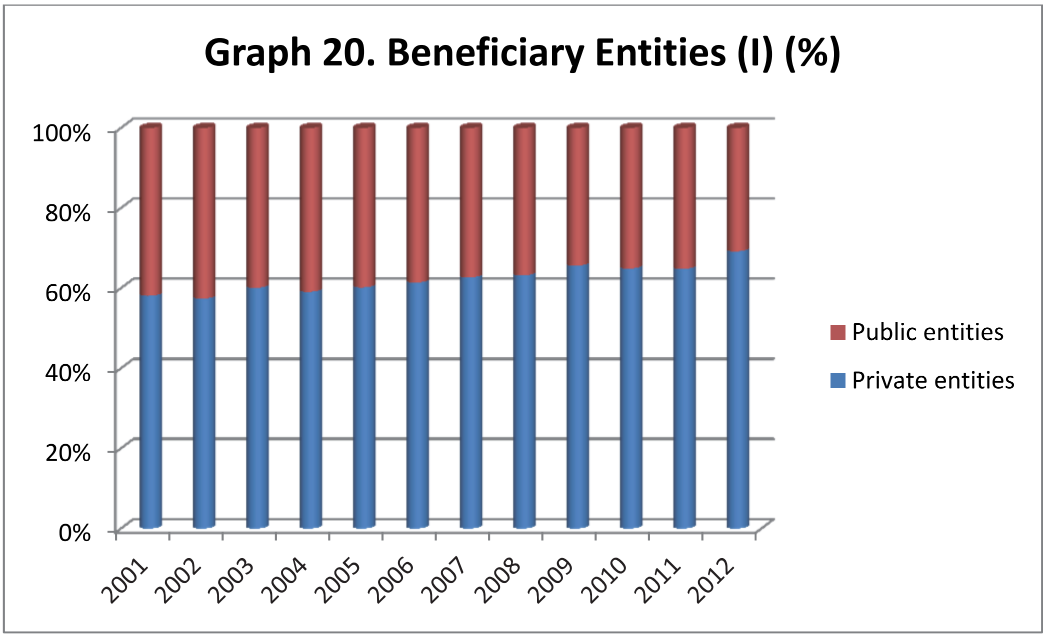
Given the reduction of grants, a relevant question to answer is whether banking Foundations modified the distribution of grants among sectors and, hence, re-calibrated the resources for specific purposes.

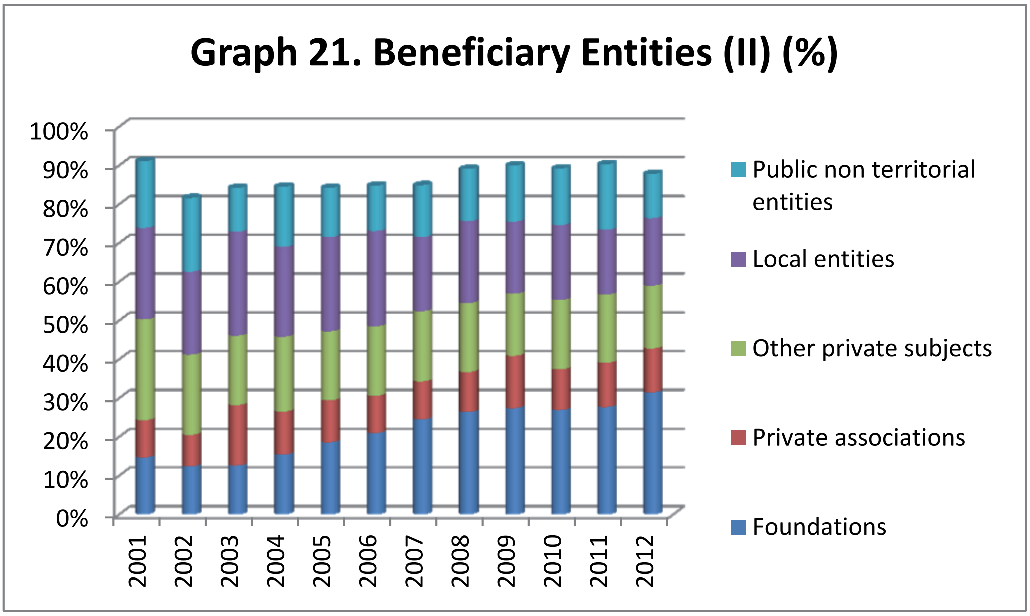
Italian Law identified two essential objectives banking Foundations should pursue in their grant-making activity: social utility and economic development of the territory. In addition the Law explicitly established that banking Foundations should focus their interventions in “three relevant areas" (Article 11, paragraph 2 of the "Tremonti" Law). As we can see from Graph 17. and 18., at the aggregate level, banking Foundations concentrate their grant-making activity in 5 main areas: art and cultural heritage (30.7%), education (12.88%), research (11.91%), volunteering and charity (11.83%) and social welfare (11.49%). The distribution of resources among the 5 sectors has been quite stable in the period under study without significant changes in the composition. It is worthwhile to notice that grants to support local development represent only a small percentage of total grants during this period even if the economic development of the local territory is explicitly acknowledged as one of the main objectives of banking Foundations by the Law.



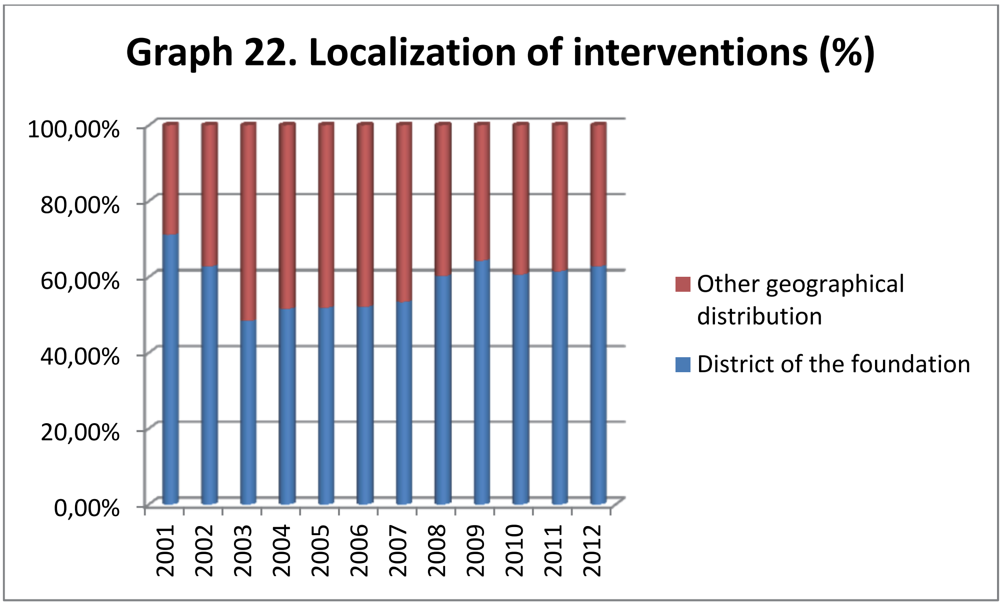
Each Foundation tends to concentrate its grant making activity in few sectors. This is confirmed by Graph 19. A Foundation is considered to be highly specialized if more than 50% of its grants are concentrated in just one sector of activity or more than 60% are concentrated in two sectors. Specialization is considered to be medium if between 30% and 50% of the grants are concentrated in one sector or between 40% and 60% are concentrated in two sectors. Specialization is low in all the other cases. If we remember that the total number of Foundations is fixed at 88, we can see from the graph that all the Foundations are highly or medium specialized and that the proportion among the two categories is fairly stable throughout the period.

Some changes have occurred with reference to the beneficiary organizations. We can observe them in Graph 20. and 21. The percentage of grants in favor of private entities increased over time with an average value equal to 62.23% against 37.78% for public entities. Among the beneficiaries, other Foundations were the main recipients (21.59%), followed by local entities (21.34%) and private subjects (18.60%). However both local entities and public non territorial organizations have received less grants over time, consistently with the lower percentage of grants in favor of local development.

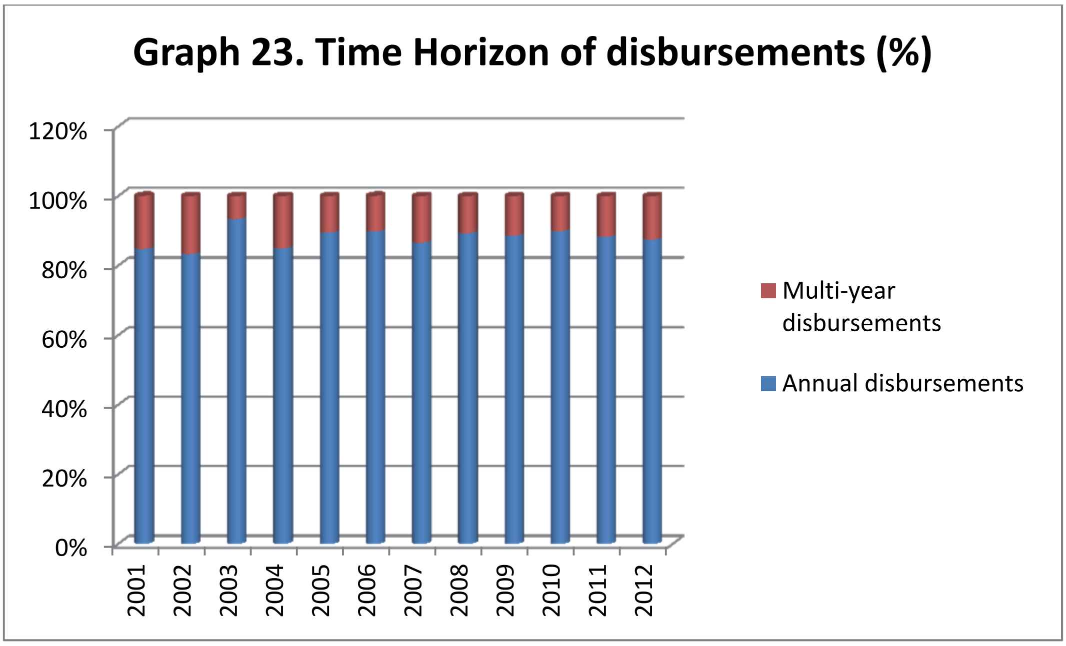




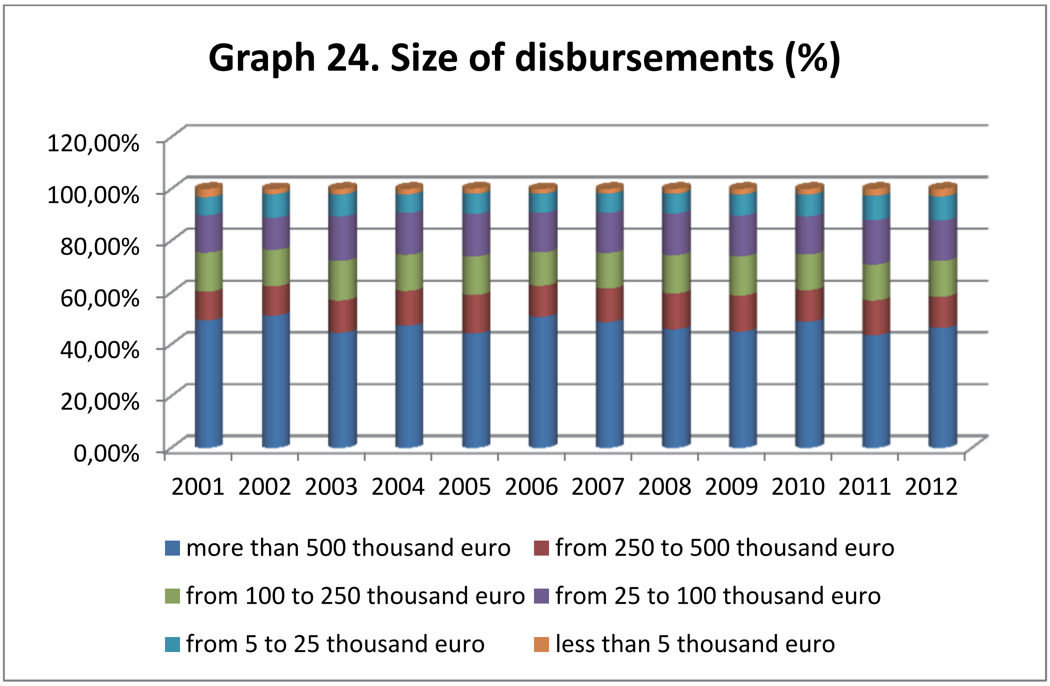
The attention of banking Foundations towards the local territory is also evolving, as we can from the localization of banking Foundations' interventions and grants (Graph 22.). Even if interventions in the same district of the banking Foundations represent more than half of the total grants (58.39% against 41.61% in favor of other geographical areas), the trend is negative: in 2001 local interventions represented 71.1% of total grants while in 2012 the percentage was 62.70%. Nevertheless banking Foundations maintained their local aim by focusing on geographical areas close to their headquarters district. Indeed in 2012 just 2.5% of total grants were at national level (in 2006 the percentage was 12.20%).

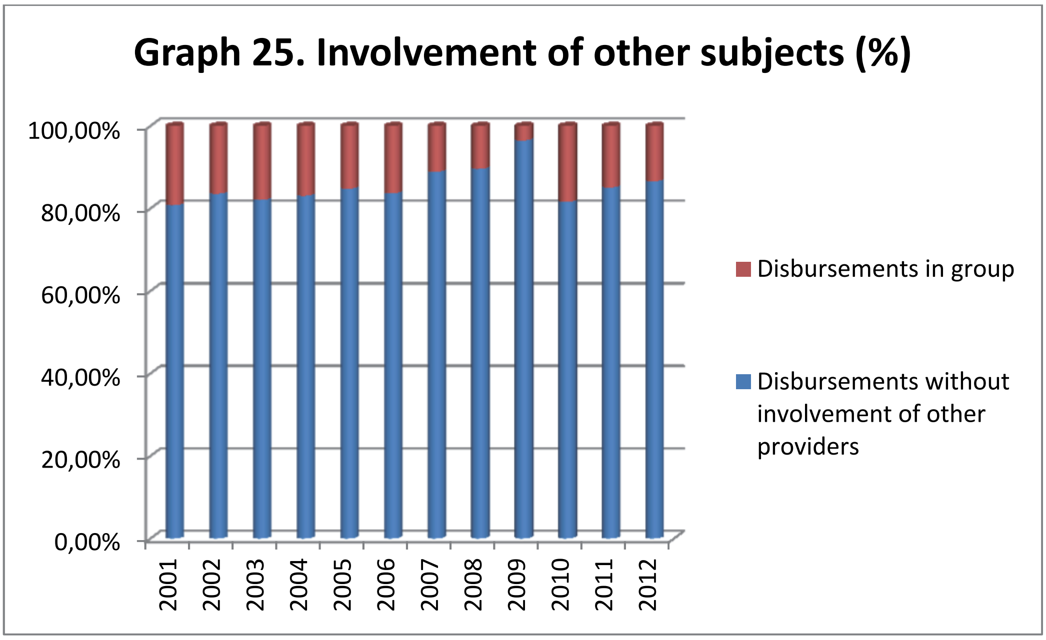


Although banking Foundations act as long-term investors and, as we have already observed, they are increasingly preferring long-term type of investments, most of their disbursements (88%) is annual and, above all, the proportion of multi-year grants decreased over time (Graph 23.). This apparent preference for one-shot type of grant could signal a lack of strategic planning.

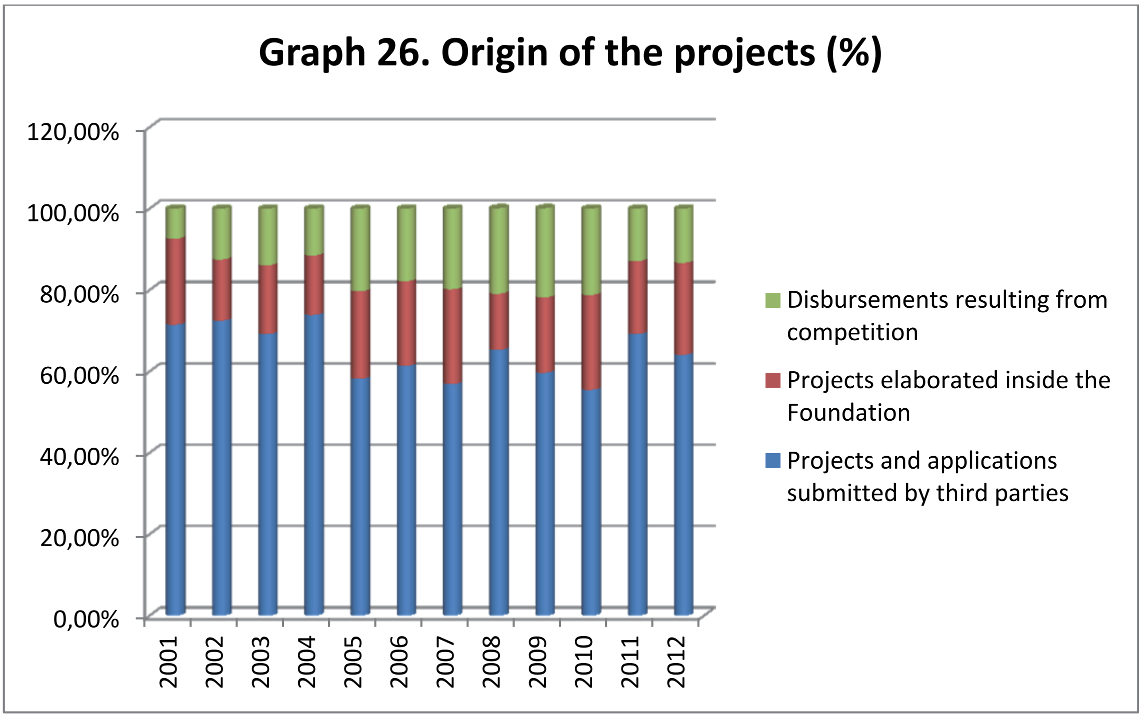


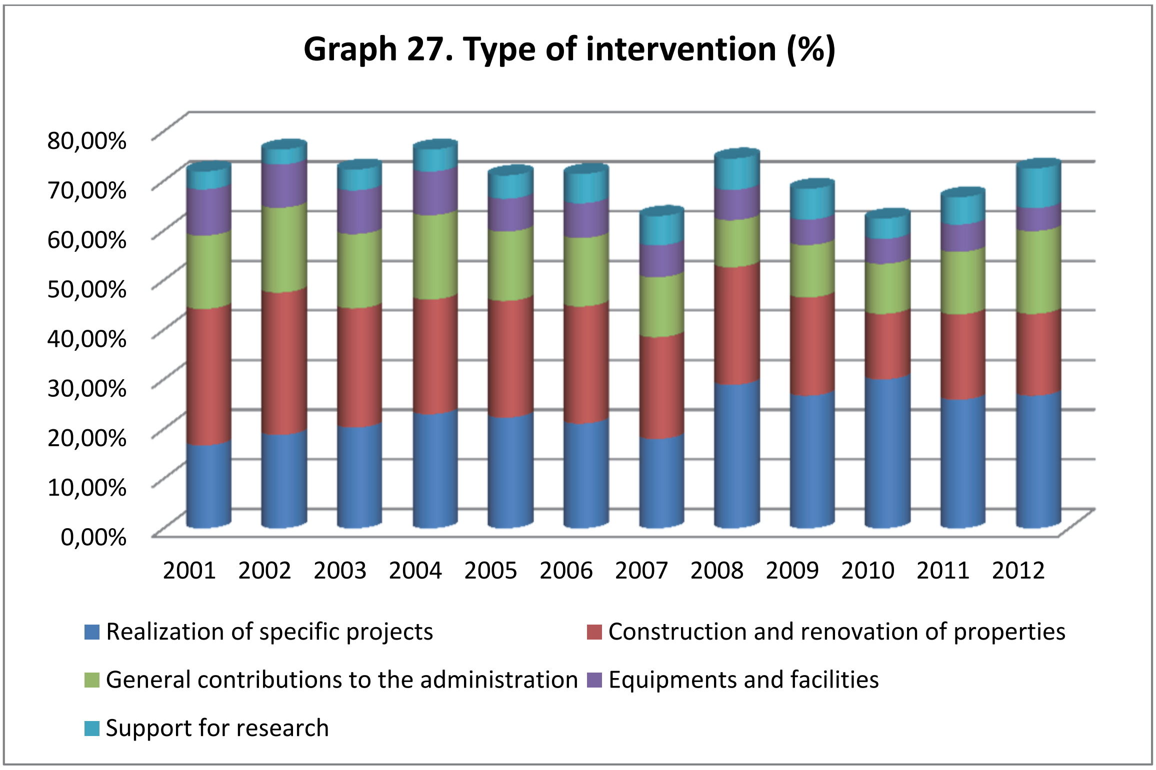
Despite the short time-horizon that characterizes the majority of their disbursements, banking Foundations still appear to play a key role for the community and society since most of the grants (47.06%) involves more than 500 thousand euros (Graph 24.). The significant size of grants decided by banking Foundations is even more relevant if we consider the prevailing annual horizon of the grants and, specially, that 85.53% of the grants are delivered by banking Foundations without the “help” of other organizations (Graph 25.).





Moreover and consistently with the subsidiary aim of banking Foundations, 64.78% of the projects supported by banking Foundations were created outside the Foundation by third parties even if there is an increasing proportion of projects that are elaborated by the banking Foundations themselves. Despite this tendency, the role of banking Foundation is still a supporting one. Graph 26 shows that in 84.55% of the cases banking Foundations do not directly realize the approved projects but, conversely, subsidize third-parties in the realization of works and delivering of services.

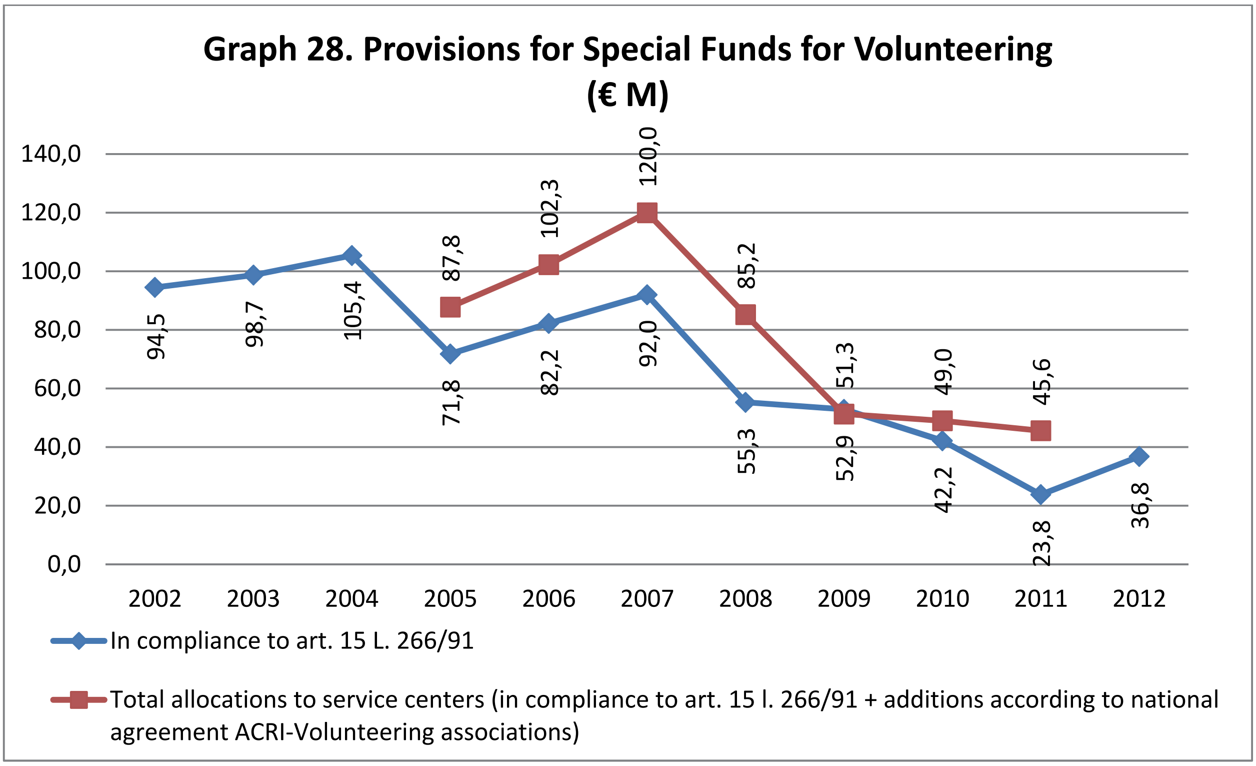




Finally if we consider the type of projects patronized by the banking Foundations (Graph 27.), it is worthwhile to notice the preference for specific projects to realize

(23.20%), but, also, the increasing relevance of general contributions to the administration which appears at odds with the expectations of the Italian legislator.

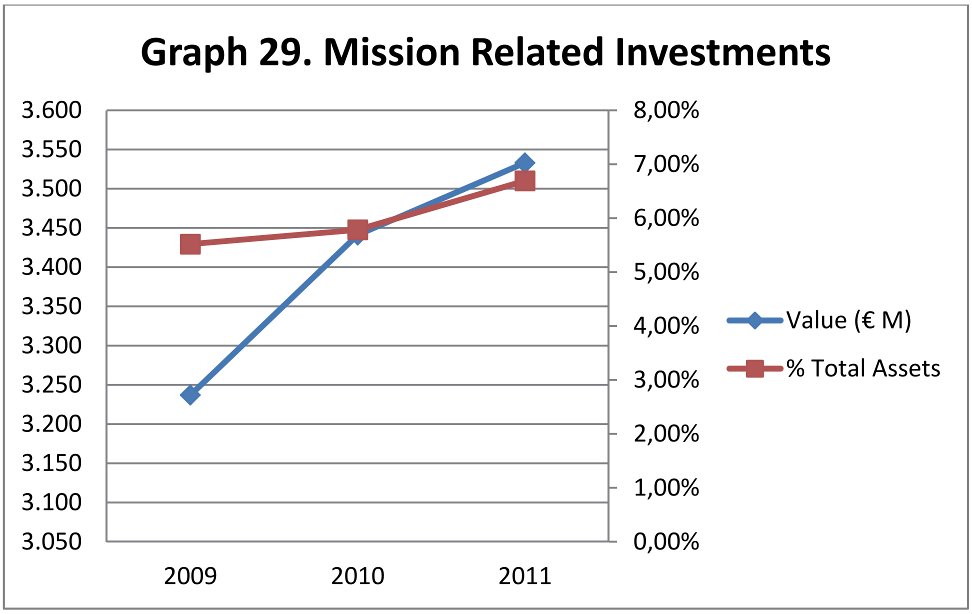
We also have to remark that the Law 266/1991 mandates to banking Foundations to dedicate one 15th of profits (ca. 6.6%) specifically to voluntary work activity. In particular these funds have to be channelled through the official Regional Centers for Voluntary work that use the funds as their main source of financing for their activities. This legal requirement has been complemented by a national agreement signed between ACRI and the association of voluntary work centers. As expected the evolution of these funds reflects the evolution of profits (Graph 28.).



7.2 Mission related Investment (MRI)

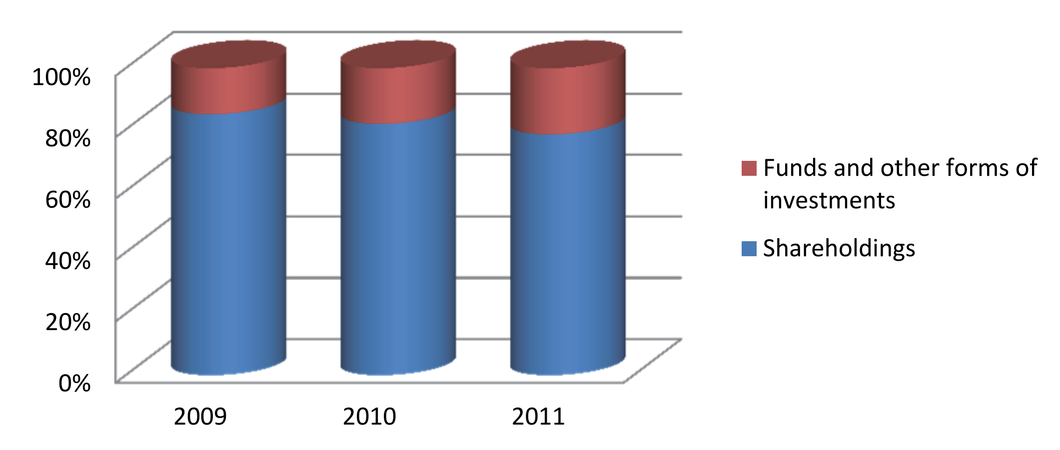
In addition to traditional grant making activity, banking Foundations can pursue their institutional objectives by undertaking the so-called Investments Related to the Mission (MRI). Through MRI, banking Foundations use their capital resources for investments able to produce positive externalities for the area, in line with the mission of the banking Foundation. They represent an interesting example of derogation from the principle of adequate profitability in the use of the assets. In particular the unique characteristics of such investments allow banking Foundations to conveniently combine the goal of adequate return on equity with the aim to give support and impetus to economic realities as well as to promote social and economic development.

Although the share of financial resources invested in this line of work is still marginal in relation to the constraints of adequate profitability and capital preservation that still remain, in three years (2009-2011) there has been an increase in MRI both in absolute terms (from 3,327 millions euros in 2009 to 3,533 in 2011, + 9.14%) and in relation to the total assets (from 5.52 % in 2009 to 6.69% in 2011), underlining the growing interest for their strategic content with respect to the institutional role of banking Foundations .

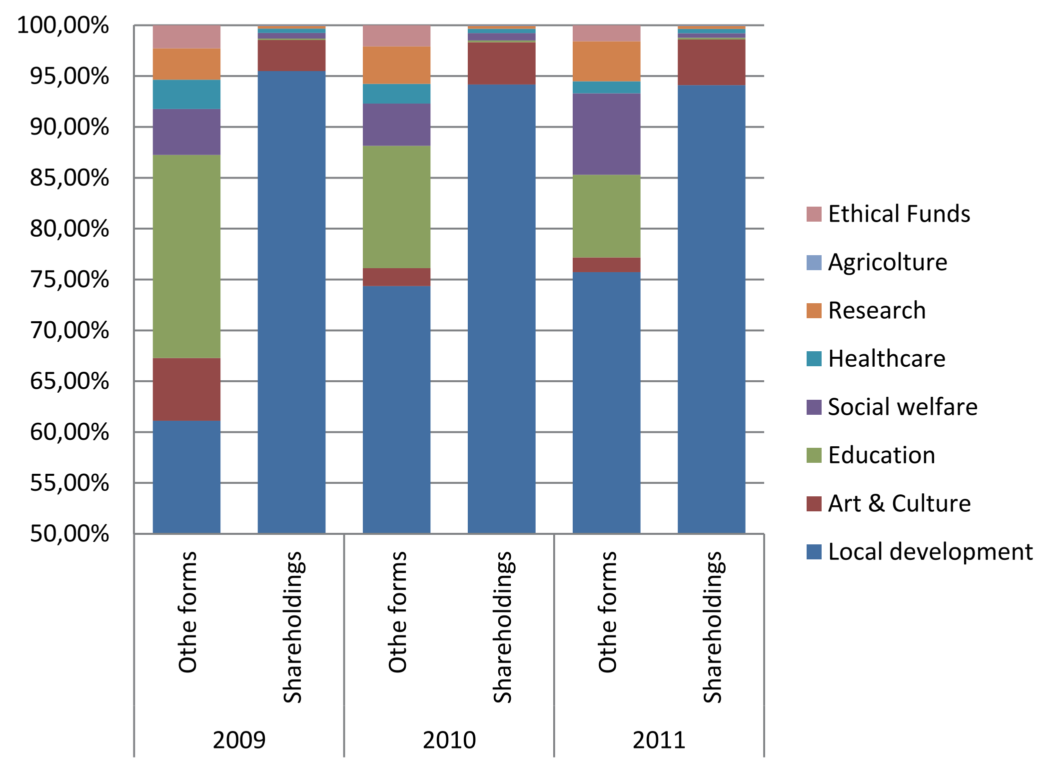


Most of MRI occurrs in form of shareholdings in companies (82%) even if the importance of other forms of investments, such as funds, is increasing (see Graph 30.). The different forms of MRI show some differences with respect to sectors of activity. In both cases more than half of the investments are undertaken to promote the local development. However, in the case of shareholding, local development represents more than 90% of total investments, whereas for the other forms of investments we see more variety (see Graph 31.).

Graph 30. MRI - Forms (%)



Graph 31. MRI - Sectors (%)



8. Conclusions

In this report we have analyzed the evolution of the legal framework of Italian banking Foundations. We have also conducted an empirical analysis for the period 2001-2012 of their evolution in terms of investments, financing and institutional activity.

It appears that, almost 25 years after their creation, Italian banking Foundations are still looking for a stable model of existence. Created fundamentally as holding companies for their originating banks, they are now forced both by the Law and by the changed economic conditions to switch to a new model of autonomous non-profit entity dedicated to the promotion of socially valuable projects and investments. This transition is certainly not complete yet and it has proven difficult.

An additional element of difficulty has been introduced by the financial crisis started in the summer of 2007. This crisis has affected also the Italian banking system and some of the Foundations have been pushed back into their role of institutional shareholders of important banks. They have actively participated to the recapitalization of some troubled banks. This has generated some problems in terms of diversified investment management and profitability. On the other hand their role during this difficult process has helped the Italian banking system during the crisis and saved the Italian State from direct intervention. Therefore also this financial activity performed during the crisis by the Foundations has a strong social component.

However these exceptional circumstances should not stop the transition described before. The recently approved Foundations Charter reinforces the aim to progressively become more independent from the “conferred bank” in order to perform at best their role of social actor of change. This transformation requires an improvement in their investment management with more diversification and a better grant selection procedure.

On the other hand, it is a fact that the financial viability of Italian banking Foundations is still highly dependent from the dividends received from the “conferred banks”. This is not likely to change in the near future. However the Foundations should look at their stakes into the banks as investor and react if the prospects and the profitability of the banks start faltering.

In summary the future of Italian banking Foundations seems to depend on the success of a difficult balancing act: transitioning towards a more professional approach to estate management and at the same time not loose their identity as non-profit organizations. What should be left behind is the role of “safe boxes” of the shareholdings of the “conferred banks”. This has been established by the Law and it seems to be also accepted by the Foundations.

The Foundations are still the same that existed when they were created in 1990. However the Italian banking sytem has changed dramatically and has become more concentrated through some important merger and acquisitions. So it is reasonable to expect that something similar may happen for Foundations. Especially small Foundations are likely to feel the pressure to merge in order to survive and to be able to have an impact with their activity. This process is not easy because of resistance generated by historical traditions and differences.

Appendix

Table A.1: Descriptive Statistics of banking Foundations' investments					
Year	*Total Assets*	*% Intangible and Tangible Assets*	*% Financial Assets*	*% Stake into Saving Bank*	*Diversification investments*
2001	40,230.4	0.89%	99.11%	41.28%	0.99
2002	41,498.4	1.17%	98.83%	33.89%	0.94
2003	45,470.5	1.34%	98.66%	29.03%	1.04
2004	46,522.8	1.53%	98.47%	29.21%	1.02
2005	51,952.1	1.60%	98.40%	25.55%	0.94
2006	54,815.2	1.66%	98.34%	25.11%	0.94
2007	57,545.5	1.91%	98.09%	25.91%	1.23
2008	58,475.5	2.12%	97.88%	32.39%	1.42
2009	58,661.6	2.36%	97.64%	40.68%	0.99
2010	59,503.2	2.71%	97.29%	42.53%	0.95
2011	52,805.6	3.46%	96.54%	39.87%	0.95
2012	51,001.6	3.66%	96.34%	39.61%	0.96
Mean	51,540.20	2.03%	97.97%	33.75%	1.03
Standard deviation	6,466.82	0.84%	0.84%	6.47%	0.14
Minimum	40,230.40	0.89%	96.34%	25.11%	0.94
Maximum	59,503.20	3.66%	99.11%	42.53%	1.42
Range	19,272.80	2.77%	2.77%	17%	0.48

Table A.2: Descriptive statistics of banking Foundations' sources of financing					
Year	*Equity*	*Other liabilities (% Total Liabilities)*	*Debt ratio (D/E)*	*Allocation to Equity*	*Allocation to Equity (% Profit)*
2001	36,278.20	0.78%	0.0087	492.20	29.51%
2002	36,980.40	0.75%	0.0084	534.60	30.93%
2003	40,511.90	1.05%	0.0118	563.40	29.33%
2004	41,460.40	0.42%	0.0047	625.10	31.02%
2005	45,850.00	0.59%	0.0067	858.10	31.53%
2006	47,152.00	0.97%	0.0113	1,019.80	33.00%
2007	48,758.40	1.08%	0.0127	1,121.50	32.47%
2008	48,852.40	1.92%	0.0230	606.5	30.60%
2009	49,487.30	1.60%	0.0190	570.1	28.44%
2010	50,160.60	2.05%	0.0244	468.4	31.71%
2011	43,034.30	4.04%	0.0496	240	51.00%
2012	42,183.00	3.95%	0.0477	369.9	34.58%
Mean	44,225.74	1.60%	0.0190	622.47	32.84%
Standard deviation	4,643.54	1.17%	0.0145	246.21	5.71%
Minimum	36,278.20	0.42%	0.0047	240.00	28.44%
Maximum	50,160.60	4.04%	0.0496	1,121.50	51.00%
Range	13,882.40	3.62%	0.0449	881.50	22.56%

Table A.3: Descriptive statistics of banking Foundations' profitability (I)						
Year	*Income*	*Dividends from saving bank(% Income)*	*Costs*	*Costs (% Income)*	*Profit*	*Profit (% Income)*
2001	1,740.00	57%	144.5	8%	1,667.90	96%
2002	1,817.50	64%	155.1	9%	1,728.50	95%
2003	2,019.30	43%	170	8%	1,921.00	95%
2004	2,053.50	42%	176	9%	2,015.40	98%
2005	2,767.80	39%	221.3	8%	2,721.80	98%
2006	3,415.30	37%	537.6	16%	3,090.40	90%
2007	3,824.80	51%	382.3	10%	3,453.90	90%
2008	2,644.80	79%	889.7	34%	1,982.30	75%
2009	2,475.80	24%	392.1	16%	2,004.50	81%
2010	1,986.30	36%	450.1	23%	1,477.20	74%
2011	1,236.90	55%	731.3	59%	470.60	38%
2012	1,535.60	29%	410.7	27%	1,069.70	70%
Mean	2,293.13	46%	388.39	19%	1,966.93	83%
Standard deviation	732.34	14,86%	229.16	14,62%	789.48	16,76%
Minimum	1,236.90	24%	144.50	8%	470.60	38%
Maximum	3,824.80	79%	889.70	59%	3,453.90	98%
Range	2,587.90	54%	745.20	51%	2,983.30	60%

Table A.4: Descriptive statistics of banking Foundations' profitability (II)						
Year	*Income / Equity*	*Profit/ Total Assets*	*Profit/ Equity*	*Financial Income/ Financial Assets*	*Dividends from saving bank/ stake into saving bank*	*Profit from Asset management/Asset investments*
2001	5.10%	4.15%	4.70%	3.10%	6.40%	0.31%
2002	5.20%	4.17%	4.70%	1.90%	9.30%	-0.21%
2003	5.40%	4.22%	5.00%	3.80%	6.50%	3.85%
2004	5.40%	4.33%	4.90%	3.70%	6.90%	4.27%
2005	6.90%	5.24%	6.20%	5.00%	8.50%	4.58%
2006	8.00%	5.64%	6.60%	5.60%	10.20%	3.70%
2007	8.30%	6.00%	7.20%	4.50%	14.80%	2.63%
2008	6.50%	3.39%	4.10%	0.20%	15.70%	-2.18%
2009	5.50%	3.42%	4.10%	4.70%	3.10%	5.58%
2010	4.00%	2.48%	3.00%	3.40%	2.90%	3.48%
2011	2.70%	0.89%	1.00%	-0.30%	2.90%	0.20%
2012	3.60%	2.10%	2.50%	2.80%	2.30%	4.32%
Mean	5.55%	3.84%	4.50%	3.20%	7.46%	2.54%
Standard deviation	1.67	1.15	1.751	1.82	4.5	2.4
Minimum	2.70%	0.89%	1.00%	-0.30%	2.30%	-2.18%
Maximum	8.30%	6%	7.20%	5.60%	15.70%	5.58%
Range	5.60%	5.11%	6.20%	5.90%	13.40%	7.76%

Table A.5: Descriptive statistics of banking Foundations' grants		
Year	*Grants*	*Grants/ Total Assets*
2001	1,083.100	2.69%
2002	1,043.800	2.52%
2003	1,142.500	2.51%
2004	1,274.900	2.74%
2005	1,305.300	2.51%
2006	1,514.500	2.76%
2007	1,715.400	2.98%
2008	1,679.600	2.87%
2009	1,386.200	2.36%
2010	1,366.600	2.30%
2011	1,092.500	2.07%
2012	965.800	1.89%
Mean	1,297.517	2.517%
Standard deviation	246.309	0.322
Minimum	965.8	1.894%
Maximum	1,715.4	2.981%
Range	749.6	1.087

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