Cassa Depositi e Prestiti SpA

Issuer rating report

Issuer rating
BBB+

Outlook
Stable

Lead Analyst
Alessandro Boratti, CFA
+39 02 94758396
a.boratti@scoperatings.com

Summary and Outlook

Scope's credit view (summary)

Cassa Depositi e Prestiti's (CDP) **BBB+/Stable** issuer rating is aligned with that of its public sponsor, the Republic of Italy (BBB+/Stable). This reflects the strong level of integration between the two entities and the high likelihood of exceptional support from the sponsor. However, the absence of an explicit guarantee on part of CDP's debt obligations means that the condition for automatically equalising the rating is not met.

CDP is the Italian National Promotional Institution with a mission to foster the country's economic development. It is majority owned and controlled by the Ministry of Economy and Finance (MEF, 83% stake), with a further 16% of shares held by banking foundations. We assess the integration with the state as 'high' given the shareholder structure, purpose of activities, and degree of financial interdependence. Consequently, we use a top-down approach to determine CDP's rating.

Scope assesses the likelihood of exceptional support as 'high', although there is not an explicit guarantee on all of CDP's liabilities. This view is based on CDP's strategic importance to the Italian state, the lack of credible alternatives, and the severe implications a default would have for the Italian economy and public finances.

The rating also acknowledges CDP's sound stand-alone financial fundamentals. Although CDP does not pursue a profit-maximising strategy, it has achieved solid earnings in recent years (ROE at around 10%), partly thanks to the stream of dividend income from its equity portfolio. Lately, in a higher interest rate environment, profits have increased due to wider commercial spreads.

CDP's asset quality continues to benefit from its material exposure to Italian public entities at both local and central government levels.

CDP manages its funding and liquidity position in a similar manner to financial institutions subject to Basel regulations. The bank benefits from a stable flow of postal savings, which are guaranteed by the state, and which make up almost 80% of total funding as of H1 2023.

Outlook

The Stable Outlook reflects the Outlook on the rating of the Italian Republic.

What could move the rating up/down

- A change in the Republic of Italy's rating could move CDP's rating in the same direction.

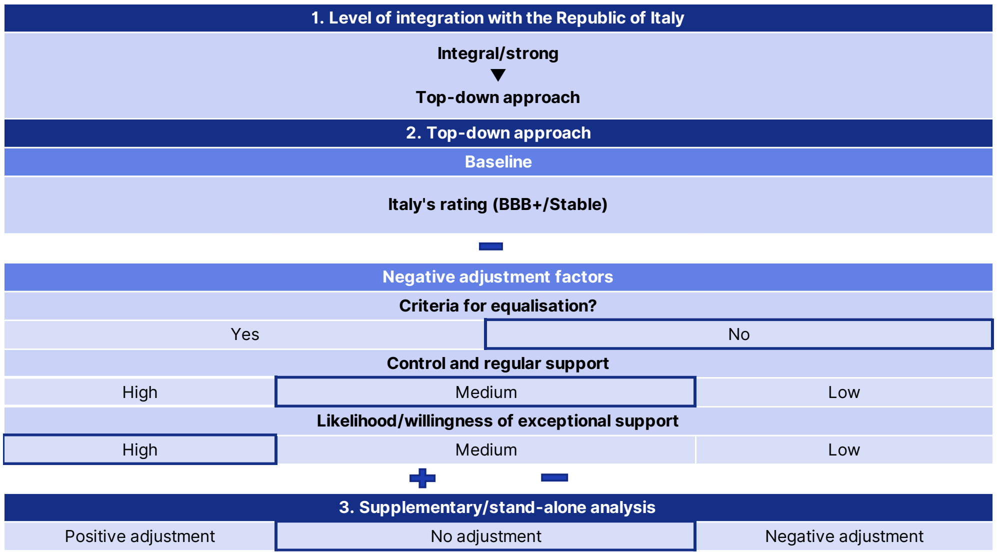
What could move the rating down

- A material reduction in the level of integration with the Italian Republic and/or credit support in the form of the guarantee on postal savings could move the rating down.

Table of contents

Rating drivers

Figure 1: Scope's approach to rating CDP



Source: Scope Ratings

1. Strong level of integration with the Republic of Italy

Top-down approach driven by CDP's strong integration with the state[1]

CDP is Italy's National Promotional Institution and the parent company of the CDP Group. It is a stand-alone issuer that is majority-owned and controlled by Italy's MEF. Its activities primarily fulfil a public sector mandate, as its mission is to support and promote Italy's economic development. CDP is instrumental to the state's implementation of policy, making it a government related entity as defined under Scope's Government Related Entities Rating Methodology.

CDP is a joint-stock company and a registered non-banking financial institution.

With Decree Law 269 of 30 September 2003, CDP became a joint-stock company and assumed the form of a non-bank financial institution registered in the Article 106 register at the Bank of Italy. This change opened up its capital to investment by third parties and, specifically, Italian banking foundations.

Like other development institutions[2], CDP is classified by the ECB as a credit institution. It is therefore subject to a reserve requirement, but not to CRD/CRR. Since 2004, CDP has been subject to 'informative supervision' by the Bank of Italy, but no regulation specific to CDP has been issued. In addition, CDP is supervised by a parliamentary committee and a court of auditors (corte dei conti).

Majority-owned by the MEF

CDP is owned and controlled by Italy's MEF (83%), although its governance structure protects it from excessive political interference. Banking foundations (16%) are minority partners but, under the list-voting mechanism detailed in CDP's by-laws, they have the right to appoint three out of nine board members, including the chair. This enables them to block actions requiring a qualified majority.

CDP's focus remains on public mission and activities

CDP's historical role in channelling postal savings towards public infrastructure and public administration financing has broadened over the years. Under its 2022-24 business plan, CDP is playing a greater role as a strategic investor in Italian enterprises, infrastructure projects and public administrations, alongside a more technical advisory role. CDP's initiatives to promote sustainable development in the country will be increasingly based on social and environmental considerations beside traditional economic and financial ones.

[1] See Appendix A.

[2] KfW, ICO and CDC are subject to ECB reserve requirements but not to CRD/CRR.

There is a high degree of financial interdependency between CDP and the Italian state. Although CDP does not receive direct contributions, it is primarily funded by postal savings, which are explicitly guaranteed by the state. Postal savings are a reliable and stable source of funding. At the same time, CDP plays a crucial role in supporting the government through its lending activity to the public sector. Around 90% of CDP's loans to customers are related to the government. CDP is also a meaningful investor in Italian sovereign debt. Its securities portfolio, which makes up more than 15% of total assets, consists almost entirely of Italian government bonds.

High financial interdependencies between CDP and the Italian state

CDP maintains a separate system of organisational accounting for i) activities of general interest (the separate account), which can be funded by postal savings; and ii) residual activities (the ordinary account), which cannot be funded by postal savings.

Residual activities are funded through the wholesale and interbank markets. The group has both EMTN and DIP programmes. The bonds issued under these two programmes are not explicitly guaranteed and, in theory, rely only on CDP's own creditworthiness.

The lack of an explicit statutory guarantee on its debt programmes means that the condition for automatically equalising CDP's rating with the Italian sovereign rating is not met. Consequently, the continuous monitoring of the likelihood of ordinary and extraordinary support from the sovereign is warranted.

No explicit guarantee on wholesale liabilities

2. High likelihood of exceptional support due to CDP's systemic importance to the Italian economy and public sector finances

Based on our assessments of 'medium' for control and regular support and 'high' for likelihood and willingness of exceptional support, we do not apply any downward notching to CDP's rating relative to the Republic of Italy's rating (BBB+/Stable)[3].

The national government, through the MEF, appoints the majority of CDP's board directors and therefore influences its strategy and executive management. Moreover, the MEF can direct the strategy of the separate account. The government also indirectly controls appointments within the subsidiaries of the CDP group.

The government influences strategy and executive management

CDP's management operates with autonomy from the Italian government with respect to its ordinary activities, despite being supervised by government bodies such as a parliamentary committee. Management can set its own strategy within the limits of its own by-laws.

CDP's ordinary activities are shielded from direct political interference

CDP's own statutes and the reinforced governance rights enjoyed by banking foundations are important for managing potential conflicts of interest with the Italian government. However, we consider the main protection against state interference is the classification of CDP as a market unit for Eurostat purposes.

As long as its products and services are offered under market conditions, CDP is not considered part of the public sector and its debt is not consolidated into Italian government debt. This leaves public-debt statistics unaffected, including in the European accounting framework. Likewise, the Italian treasury's guarantee on postal savings is not included in government-debt statistics for Maastricht purposes unless it is called upon.

Should CDP need extraordinary support, we believe this would be forthcoming given the group's systemic importance for the Italian economy, public administration, and treasury liquidity management. We would expect support to extend to unguaranteed liabilities if necessary. There are no alternatives to CDP in Italy at this time.

High likelihood of exceptional support

CDP is a net lender to the Italian state (both central and local administrations). A default of the group would have severe implications for treasury liquidity management, potentially entailing a very large liability by triggering the state guarantee on postal savings.

[3] See Appendix B.

3. Supplementary analysis

Given CDP's status as a registered credit institution, we complement the top-down analysis with an assessment of relevant credit factors included in Scope's Financial Institutions Rating Methodology. The supplementary analysis results in no further adjustment to the rating.

Supplementary analysis does not lead to rating notching adjustment

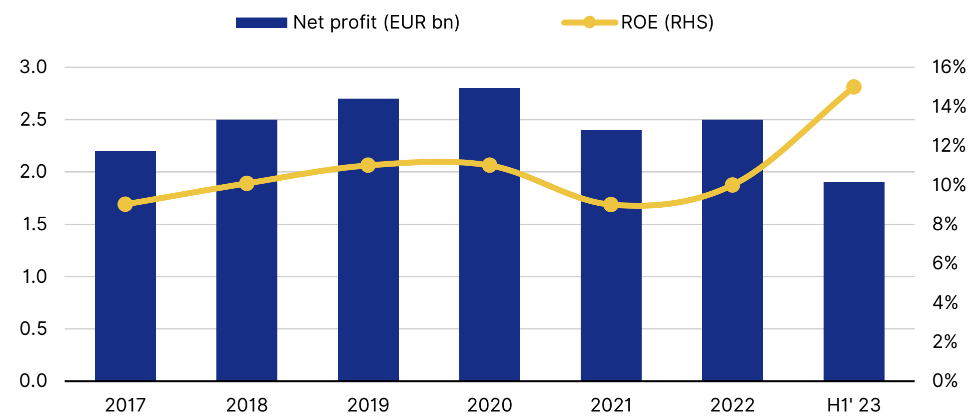
Profitability

Although CDP does not pursue a profit-maximising strategy, it has maintained a sound level of profitability, often higher than many Italian and European commercial banks. CDP's earnings benefit from three factors: (i) privileged access to stable postal savings; (ii) low credit costs; and (iii) dividends from equity stakes.

CDP's unique features explain its strong capacity to generate earnings

CDP has greatly benefited from the recent rise in interest rates, with assets rapidly repricing while funding costs have remained contained also due to the large proportion of postal savings.

Figure 2: CDP's net profits and ROE, historical



Source: CDP, Scope Ratings

Risk exposures

CDP's assets are relatively low risk, with the majority being linked to the Italian sovereign. As of end-2022, loans to customers accounted for around 55% of total consolidated group assets and the securities portfolio accounted for around 15%. The remainder consisted mainly of loans to banks, physical assets and equity investments (Figure 3).

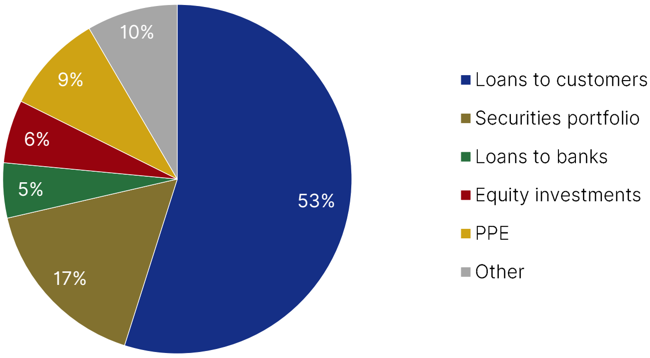
Low asset risk as a majority of assets ultimately reflect Italian sovereign risk

Around 64% of the CDP Group's consolidated balance sheet reflects government-related risk (essentially Italian sovereign risk).

1) As of end-2022, government-related loan exposures accounted for 90% of loans to customers. This included EUR 157bn of cash and cash equivalents held with the Central State Treasury and EUR 82bn in other government loans, including loans to government agencies (essentially Italian regions and other public administrations). The level of non-performing loans is immaterial.

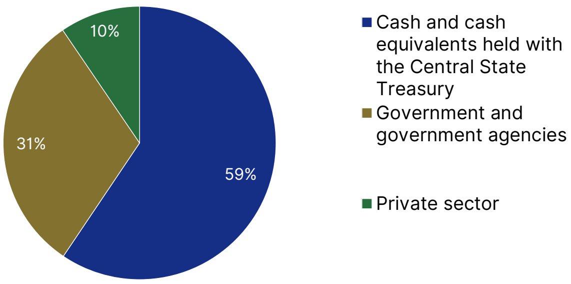
2) The securities portfolio is largely held at amortised cost (around 80%) and is comprised almost entirely of fixed-rate and inflation-linked government bonds. These bonds form part of the CDP Group's liquidity reserves and are used to hedge the profitability of postal savings against interest rate volatility.

Figure 3: CDP Group's consolidated total assets as of June 2023



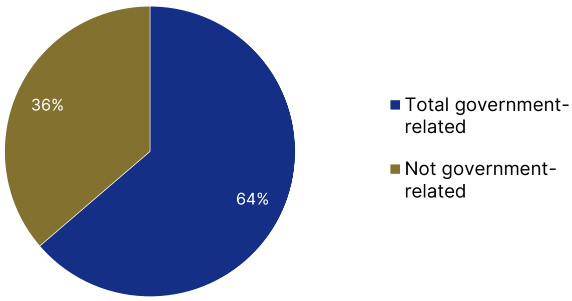
Sources: CDP, Scope Ratings

Figure 4: CDP Group - breakdown of customer loans, YE 2022



Sources: CDP, Scope Ratings

Figure 5: CDP Group – breakdown of total consolidated assets, YE 2022

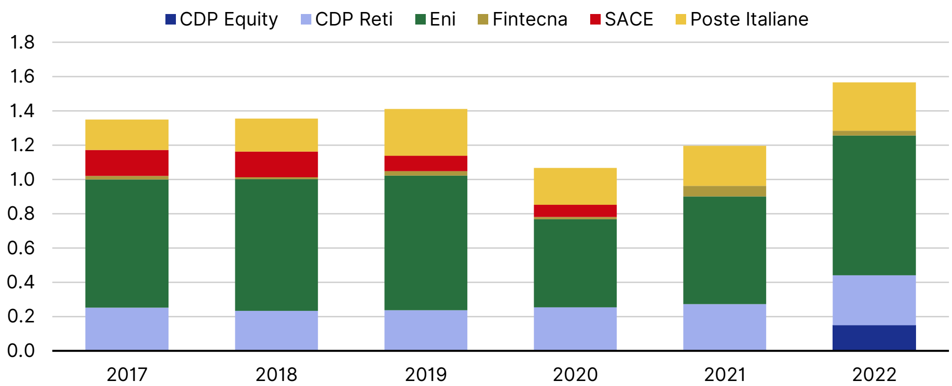


Sources: CDP, Scope Ratings

Dividends from equity stakes provide revenue diversification

In addition to providing credit, CDP holds stakes in companies of national interest. While relatively limited in terms of total assets (EUR 27bn as of 31 December 2022), these equity stakes represent an important source of revenue, especially when revenues have been under pressure due to the very low interest rate environment. Against this backdrop, dividend income has proven to be a relatively stable revenue source.

Figure 6: CDP's sources of dividend income (EUR bn), 2017-2022



Source: CDP, Scope Ratings

Funding and solvency

CDP is not formally subject to CRD/CRR requirements, only to informational supervision by the Bank of Italy. Therefore, it is not required to disclose regulatory capital ratios. Accounting equity has been fairly stable in recent years, at around 11-12%. However, balance sheet expansion caused the equity to assets ratio to decline to around 11% in 2020. This was driven by an increase in lending, partly due to extraordinary measures relating to the Covid-19 pandemic and an increase in the debt securities portfolio.

Guaranteed postal savings provide funding stability

CDP's main source of funding consists of postal savings in the form of passbooks or bonds; as of H1 2023, they amounted to EUR 282bn, or 78% of CDP's total funding (Figure 8). These liabilities are guaranteed explicitly by the Italian state, issued by CDP, and distributed via Poste Italiane's network. Despite being legally defined as sight liabilities, postal savings have been very stable. They are also relatively inexpensive and not very price sensitive.

Increased use of market issuance to diversify funding

Around 20 years ago, CDP started to diversify its funding through wholesale market issuance to finance the ordinary account. As of June 2023, around EUR 18bn of bonds were outstanding (including commercial paper).

CDP has two programmes for wholesale funding: the EMTN programme (for up to EUR 13bn) and the DIP programme (for up to EUR 15bn). CDP regularly issues under the latter. It is also a regular issuer of commercial paper under its EUR 6bn multi-currency programme.

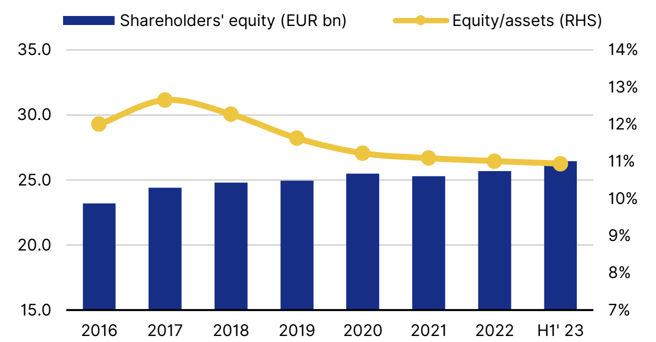
Market liabilities are not guaranteed, but rank pari passu with postal savings

The bonds issued under the EMTN and DIP programmes are not explicitly guaranteed by the state, relying instead on CDP's own credit strength. However, these bonds legally rank pari passu with postal bonds and passbooks. As a result, they would absorb losses pro-rata with postal savings investors.

In practice, postal savings investors would be made whole by the Italian state, which would then have regress rights on CDP, pari passu with other senior creditors. We deem this scenario extremely unlikely because of CDP's systemic importance. We expect the government to provide equity injections if needed and for as long as there were the financial means to do so.

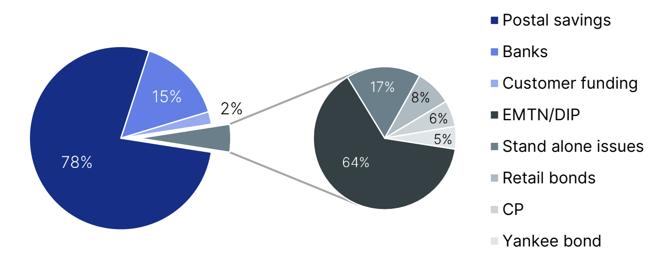
Another source of funding consists of money market transactions with the Italian treasury (formerly OPTES), i.e. short-term deposits provided by the Italian government. The MEF uses these operations to manage the treasury's liquidity account. The balance of these short-term deposits stood at around EUR 2bn as of H1 2023, after a marked decline of more than 60% since YE 2021 driven by falling system liquidity. Lastly, CDP has access to ECB funding: after repaying a sizeable PELTRO line, TLTRO funding as of H1 2023 stood at EUR 5bn.

Figure 7: CDP's equity base as a percentage of total assets (net of cash)



Sources: CDP, Scope Ratings

Figure 8: CDP's breakdown of funding as of H1 2023



Sources: CDP, Scope Ratings

ESG considerations

Multi-legged approach to sustainability

CDP has publicly committed to contributing to the UN's 2030 agenda for sustainable development. Key milestones include:

- In 2019, CDP started mapping its financing and investment activities in line with the UN Sustainable Development Goals.
- In 2020, the impact assessment model for the ex-ante approval of funded projects became operational and was integrated into the overall risk assessment process.
- In 2021, the principle of sustainable development was included in the by-laws.
- In 2022, in line with the 2022-2024 strategic plan, the first ESG plan was approved. This includes, among others, targets for own emissions, digitalisation (cloud computing) and gender diversity in senior positions.
- In H1 2023, CDP launched its first green bond issue to finance projects with a positive environmental impact, such as investments in renewable energies, energy and water efficiency, and sustainable mobility. It also set the first target for reducing greenhouse gas emissions related to CDP's private sector lending portfolio.

CDP has been active in the ESG bond market since 2017, with ten issues: EUR 5bn of social bonds, EUR 1.25bn of sustainability bonds, and EUR 0.5bn of green bonds.

Appendix A: Level of integration with the Republic of Italy (Qualitative Scorecard 1)

Analytical component	Weight	Assessments: Limited (1)	Medium (50)	High (100)	Not applicable
Legal status	40%	○	●	○	○
Purpose & activities	20%	○	○	●	○
Shareholder structure	20%	○	○	●	○
Financial interdependencies	20%	○	○	●	○

Integration score		80		
Indicative approach	***Score***	[1; 33.3[	[33.3; 66.7]	**]66.7; 100]**
	Approach	Bottom-Up	Top-Down or Bottom-Up	**Top-Down**
Approach adopted		Top-Down		

Appendix B: Overview of the Top-Down approach (Qualitative Scorecard 2)

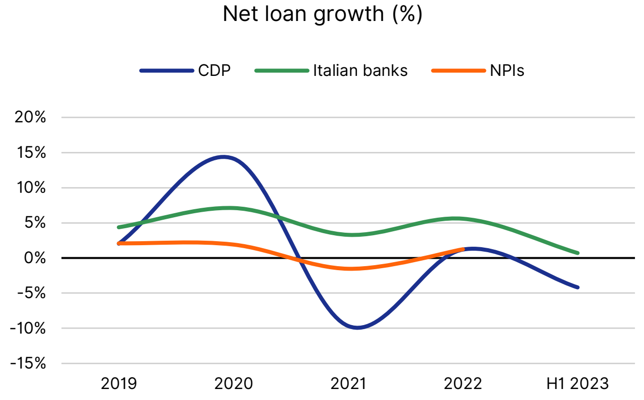
Analytical pillar	Analytical component	Weights	Assessments: Limited (1)	Medium (50)	High (100)	Not applicable	Pillar assesment
Control and regular support	Strategic and operational decision making	33%	○	●	○	○	Medium
	Key personnel, governing & oversight bodies	33%	○	○	●	○	
	Ordinary financial support	33%	○	●	○	○	
Likelihood of exceptional support	Strategic importance	33%	○	○	●	○	High
	Substitution difficulty	33%	○	○	●	○	
	Default implications	33%	○	○	●	○	

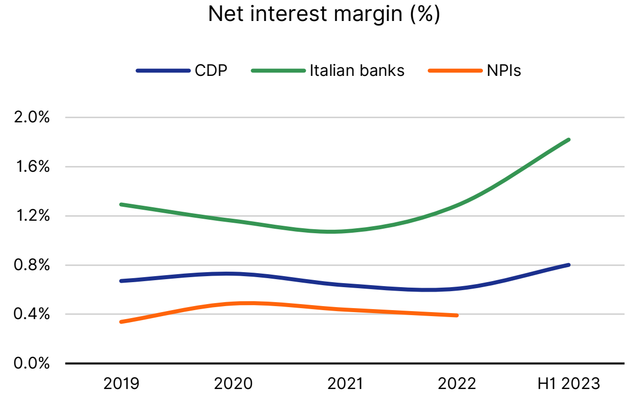
Overall assessments	**Notches**
Equalisation	0
High	0-1
Medium	1-2
Limited	2-3

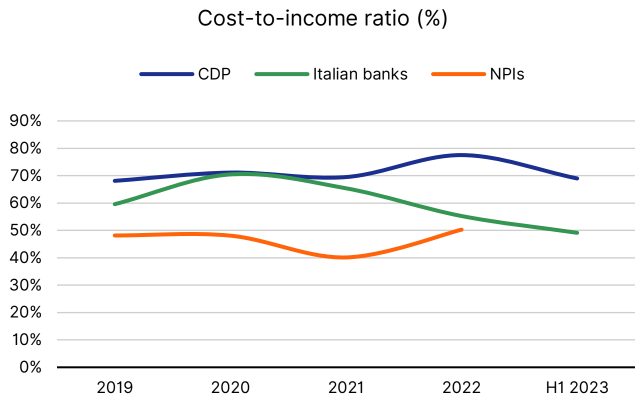
Equalisation factor	No
Overall assessment	High
Indicative notching	0-1
Additional adjustment	-
Final indicative notching	**0-1**

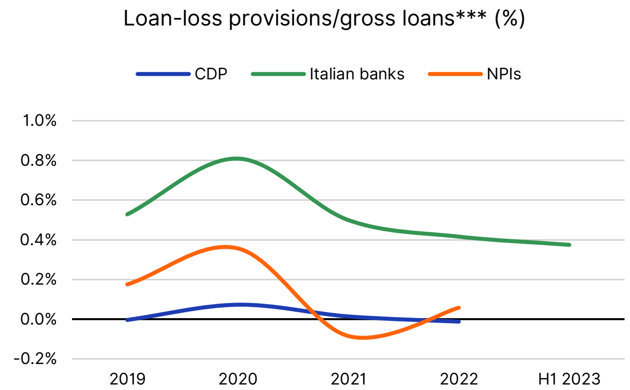
Financial appendix

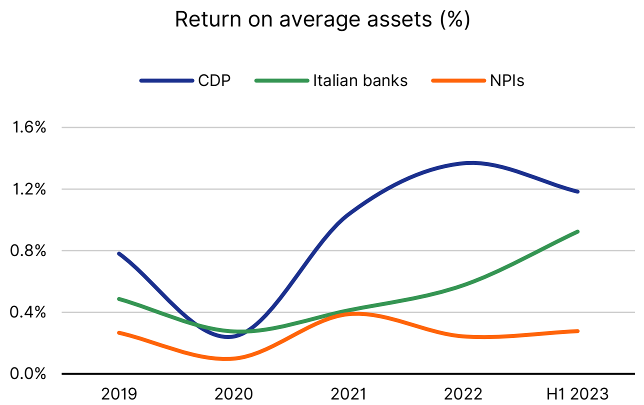
I. Appendix: Peer comparison

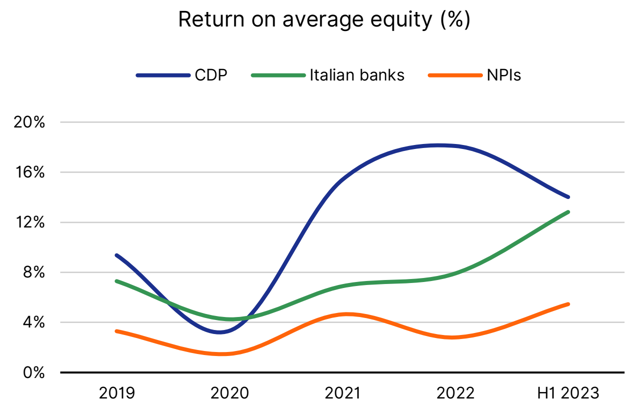












Sources: SNL, Scope Ratings
National promotional institutions: CDP Group, CDC, KfW, ICO, BNG Bank, EIB, NRW Bank, Landeskreditbank;
Italian Banks: CDP Group, Unicredit, Intesa, Banco BPM, Mediobanca, BPER, BP Sondro;
Note: Loans to customers include treasury account.

II. Appendix: Selected financial information – Cassa Depositi e Prestiti SpA, consolidated group

	2019	2020	2021	2022	H1 2023
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	32,629	48,553	45,013	29,710	27,893
Total securities	18,575	20,639	20,282	17,010	17,738
of which, derivatives	1,966	3,192	1,634	1,965	NA
Net loans to customers	312,022	356,110	321,673	325,536	318,728
Other assets	85,498	87,103	130,126	105,845	104,398
Total assets	**448,724**	**512,405**	**517,094**	**478,100**	**468,757**
Liabilities					
Interbank liabilities	41,840	62,303	49,726	50,398	50,632
Senior debt	41,333	42,851	44,031	38,856	40,054
Derivatives	3,164	4,962	3,281	1,699	1,833
Deposits from customers	302,014	311,418	321,735	317,011	310,493
Subordinated debt	532	532	0	0	0
Other liabilities	23,732	56,643	62,879	30,396	25,539
Total liabilities	**412,614**	**478,709**	**481,652**	**438,360**	**428,552**
Ordinary equity	23,550	20,436	21,163	23,771	24,184
Equity hybrids	0	0	0	0	0
Minority interests	12,560	13,260	14,279	15,968	16,021
Total liabilities and equity	**448,724**	**512,405**	**517,094**	**478,100**	**468,757**
Core tier 1/ common equity tier 1 capital	*NA*	*NA*	*NA*	*NA*	*NA*
Income statement summary (EUR m)					
Net interest income	2,380	2,876	2,583	2,306	1,476
Net fee & commission income	-1,076	-1,004	-950	-760	-481
Net trading income	646	533	578	128	93
Other income	13,031	15,145	18,472	18,181	10,474
Operating income	**14,980**	**17,549**	**20,682**	**19,855**	**11,561**
Operating expenses	10,203	12,483	14,371	15,392	7,975
Pre-provision income	**4,778**	**5,066**	**6,311**	**4,463**	**3,586**
Credit and other financial impairments	-17	254	41	-36	2
Other impairments	-209	2,119	-1,574	-3,602	NA
Non-recurring income	0	0	0	0	0
Non-recurring expense	0	0	0	0	0
Pre-tax profit	**5,004**	**2,693**	**7,845**	**8,101**	**3,584**
Income from discontinued operations	-28	-38	-1,170	-1	0
Income tax expense	1,565	1,490	1,351	1,297	783
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	1,627	1,533	2,344	1,385	984
Net profit attributable to parent	**1,784**	**-369**	**2,980**	**5,417**	**1,817**

Source: SNL

III. Appendix: Selected financial information – Cassa Depositi e Prestiti SpA, consolidated group

	2019	2020	2021	2022	H1 2023
Funding and liquidity					
Net loans/ deposits (%)	103%	114%	100%	103%	103%
Liquidity coverage ratio (%)	NA	NA	NA	NA	NA
Net stable funding ratio (%)	NA	NA	NA	NA	NA
Asset mix, quality and growth					
Net loans/ assets (%)	69.5%	69.5%	62.2%	68.1%	68.0%
Problem loans/ gross customer loans (%)	0.2%	0.1%	0.2%	0.2%	NA
Loan loss reserves/ problem loans (%)	205.5%	277.2%	176.5%	170.8%	NA
Net loan growth (%)	2.0%	14.1%	-9.7%	1.2%	-4.2%
Problem loans/ tangible equity & reserves (%)	2.1%	2.0%	2.6%	2.3%	NA
Asset growth (%)	5.6%	14.2%	0.9%	-7.5%	-3.9%
Earnings and profitability					
Net interest margin (%)	0.7%	0.7%	0.6%	0.6%	0.8%
Net interest income/ average RWAs (%)	NA	NA	NA	NA	NA
Net interest income/ operating income (%)	15.9%	16.4%	12.5%	11.6%	12.8%
Net fees & commissions/ operating income (%)	-7.2%	-5.7%	-4.6%	-3.8%	-4.2%
Cost/ income ratio (%)	68.1%	71.1%	69.5%	77.5%	69.0%
Operating expenses/ average RWAs (%)	NA	NA	NA	NA	NA
Pre-impairment operating profit/ average RWAs (%)	NA	NA	NA	NA	NA
Financial assets impairments/ pre-impairment income (%)	-0.4%	5.0%	0.6%	-0.8%	0.1%
Loan loss provision/ average gross loans (%)	0.0%	0.1%	0.0%	0.0%	NA
Pre-tax profit/ average RWAs (%)	NA	NA	NA	NA	NA
Return on average assets (%)	0.8%	0.2%	1.0%	1.4%	1.2%
Return on average RWAs (%)	NA	NA	NA	NA	NA
Return on average equity (%)	9.4%	3.3%	15.4%	18.1%	14.0%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	NA	NA	NA	NA	NA
Tier 1 capital ratio (%, transitional)	NA	NA	NA	NA	NA
Total capital ratio (%, transitional)	NA	NA	NA	NA	NA
Leverage ratio (%)	NA	NA	NA	NA	NA
Asset risk intensity (RWAs/ total assets, %)	NA	NA	NA	NA	NA
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	NA	NA	NA	NA

Source: SNL

Analyst

Alessandro Boratti, CFA, Milan
+39 02 94758396
a.boratti@scoperatings.com

Team Leader

Marco Troiano, CFA, Milan
+44 77 69320373
m.troiano@scoperatings.com

Applied Methodologies

Rating Methodology Government Related Entities, 13 July 2023

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin
scoperatings.com

Phone: +44 20 7824 5180
Fax: +49 30 27891-100
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts

Disclaimer