18 October 2022

Government related entities

Cassa Depositi e Prestiti S.p.A. (CDP) Issuer Rating Report

STABLE

BBB+

Scope's credit view (summary)

The BBB+ rating reflects CDP's high level of integration with its public sponsor, the Italian Republic, and likelihood of exceptional support. We have therefore aligned our rating and Outlook on CDP with our BBB+ rating and Stable Outlook on the Republic of Italy.

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. The shareholder structure and purpose of activities leads us to qualify the integration with the state as strong and therefore apply a top-down approach.

CDP funding comprises postal savings explicitly guaranteed by the state, interbank deposits and debt securities within its EMTN, DIP and commercial paper programmes. The absence of an explicit guarantee on the entity's debt obligations implies that the condition for rating equalisation is not automatically met.

The moderate degree of control and regular support and the high likelihood of exceptional support by the sovereign translates in no additional downward adjustment from the public sponsor's rating.

The MEF elects most of CDP's board. It also sets the policy regarding the separate account activity, i.e. management of resources from state-guaranteed postal savings, which is then supervised by a parliamentary committee. Even so, CDP's management retains autonomy in setting strategy within the limits of its by-laws. Moreover, the power of the banking foundations to veto resolutions that require a qualified majority ensures CDP can pursue its corporate objectives without excessive political interference.

Exceptional support is highly likely given CDP's strategic importance to the Italian state, the lack of credible alternative players for the same role, and the severe implications a default would have for the Italian economy and public finances.

Its long-held mission to support the economy through direct and indirect financing of private enterprises and public administrations has recently widened in scope. Activities now include technical advisory and third-party funds management, and its toolkit has expanded to private equity, venture capital and private debt financing.

CDP plays two roles in the National Recovery and Resilience plan: as a financing entity, through the allocation of resources for equity and debt financing and funds management, and as an advisor.

The ratings also acknowledge CDP's strong stand-alone fundamentals in relation to other domestic financial institutions. Asset quality benefits from its material exposure to Italian public finance entities at both local and central governmental levels. Its equity portfolio provides a reliable stream of dividend income in addition to diversifying revenues beyond government-related activities, though recently diluted by the loss of dividends from the Italian export credit agency SACE following its transfer to the MEF.

Outlook and rating-change drivers

The Outlook is Stable, reflecting the Outlook on the Italian Republic's rating.

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

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.

Ratings and Outlook

Issuer rating	BBB+
Outlook	Stable
Senior unsecured debt rating	BBB+
Short-term debt rating	S-2
Short-term debt rating Outlook	Stable

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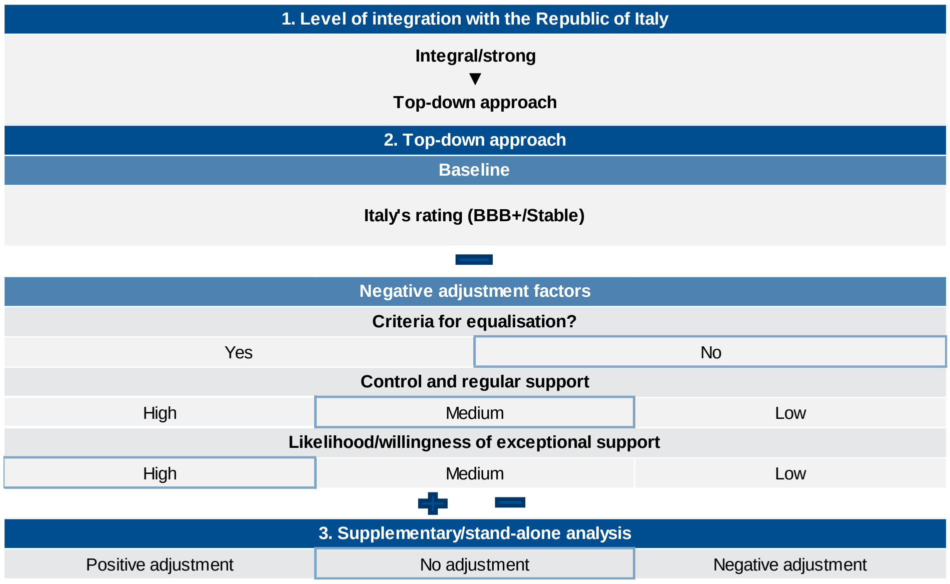
Bloomberg: RESP SCOP

Figure 1: Scope's approach to rating CDP



1. Strong level of integration with the Republic of Italy

Top-down approach driven by CDP's strong integration with the State

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 CDP a Government Related Entity as defined in Scope's Government Related Entity 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[1], CDP is classified by the ECB as a credit institution. It is therefore subject to a reserve requirement, but not to CRD5/CRR2. 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, but minority shareholders have reinforced governance rights

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 any action that requires a qualified majority.

Although broadened in recent years, CDP's focus remains on public mission and activities

CDP has historically focussed on channelling postal savings towards public infrastructure, as well as Italian government and public administration financing. However, the issuer's scope of activities has recently broadened. CDP's 2022-24 business plan aims to give CDP a greater role as a strategic investor in Italian enterprises, infrastructure projects and public administrations, alongside a more technical advisory role. CDP's interventions now emphasise an economic and financial logic as well as a more industrial approach to boosting sustainable development in Italy.

[1] KfW, ICO and CDC are subject to ECB reserve requirements but not to CRD5/CRR2.

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.

No explicit guarantee on wholesale liabilities means the rating cannot be automatically equalised

CDP is mainly funded with postal savings, which are explicitly guaranteed by the Italian state. However, the group also has 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 programmes means that the conditions for an automatic rating equalisation with the sovereign are not met. Additionally, the continuous monitoring of the likelihood of ordinary and extraordinary support from the sovereign is warranted.

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

CDP's ordinary activities are independent from the Italian government

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

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 believe 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 at market conditions, CDP is not considered part of the public sector and its debt is not consolidated into the Italian government debt. This leaves public-debt statistics unaffected, including in the European accounting framework (ESA). Likewise, the Italian treasury's guarantee on postal savings does not enter government-debt statistics for Maastricht purposes unless it is called upon.

However, the Italian government influences CDP's strategy and elects most of its top management

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

High likelihood of exceptional support

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 funding support to extend to unguaranteed liabilities if necessary. There are no alternatives to CDP in Italy at this time.

The group 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 guarantee on postal savings. Given the sums involved, this could jeopardise the country's solvency.

As a result, we have not applied any downward notching to CDP's rating relative to the Republic of Italy (rated BBB+, Stable Outlook).

3. Supplementary analysis

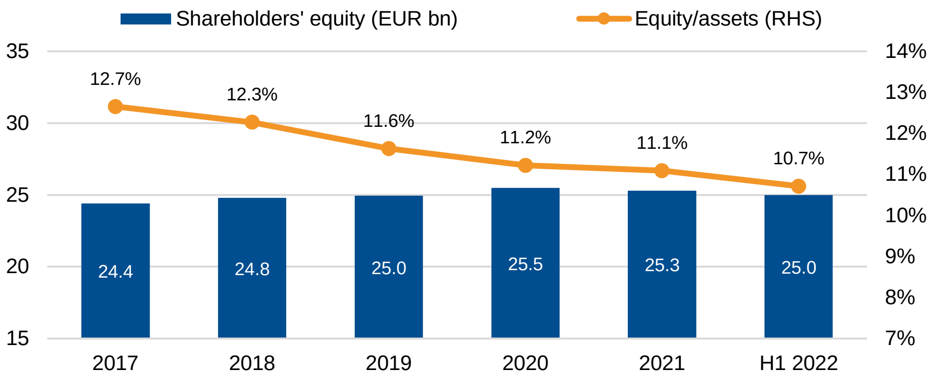
Supplementary analysis does not lead to notching adjustment

Given CDP's peculiar status as a registered credit institution, we have complemented our top-down analysis with an additional assessment of CDP's key risks through the lens of our bank rating methodology. Our supplementary analysis confirms the top-down view, resulting in no further adjustment to the rating.

Strong financial fundamentals including sound profitability, low asset risk and a stable funding base

CDP is not formally subject to CRD5/CRR2 requirements, only to informational supervision by the Bank of Italy. Therefore, CDP is not required to disclose regulatory capital ratios. Accounting equity has been fairly stable in recent years, in the 12% range. However, balance sheet expansion caused the ratio of equity to assets to decline to around 11% in 2020 and remain stable through H1 2022. This was driven by an increase in lending partly due to extraordinary measures relating to the pandemic and to an increase in the debt securities portfolio.

Figure 2: CDP's equity base as a percentage of assets (net of cash)

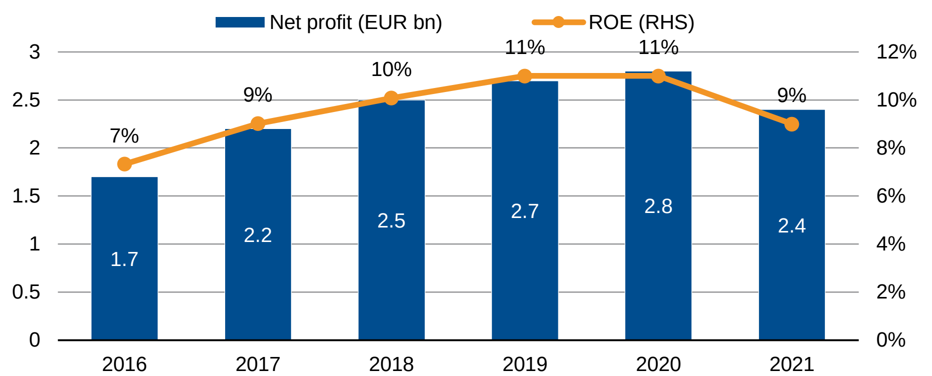


Source: CDP, Scope Ratings

Sound profitability despite low interest rate environment

Low interest rates dampened one of the bank's main competitive advantages: access to stable, cheap, captive postal savings. Despite this, CDP's return on equity (ROE) has been around 10%, declining slightly in 2021, when dividend income was particularly strong, given the higher dividends from ENI and Fintecna. This result outperforms not only most Italian banks but also many others throughout Europe.

Figure 3: CDP's net income and ROE



Source: CDP, Scope Ratings

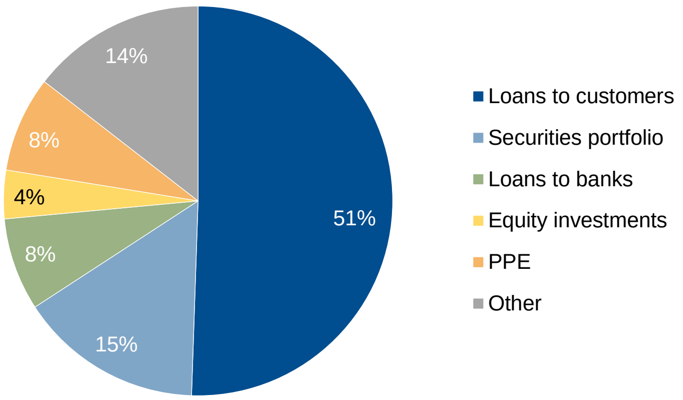
CDP's unique features explain its strong profitability relative to Italian peers

CDP's unique features explain the profitability gap with other Italian financial institutions. Aside from a privileged access to postal savings (which Poste Italiane receives a commission for) and a profitable treasury account, we highlight CDP's low cost of risk compared to that of Italian commercial banks. The level of non-performing loans is immaterial and is directly related to the peculiarity of CDP's asset risk. Indeed, a large portion of CDP's balance sheet reflects Italy's low sovereign risk, with the remaining loan book skewed towards low-risk counterparties such as public administrations and banks.

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

CDP's assets are inherently low-risk, a feature that may not be immediately evident when comparing its statutory balance sheet to that of other retail banks. As of YE 2021, loans to customers accounted for around 51% of total consolidated group assets and the securities portfolio accounted for around 15%. The remainder consisted of loans to banks, physical assets and equity investments (Figure 4).

Figure 4: CDP Group's consolidated total assets as of December 2021, overview



Source: CDP, Scope Ratings

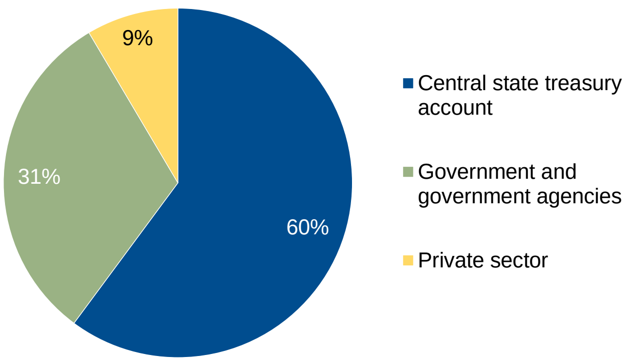
This balance sheet composition appears unremarkable at first. Upon closer inspection, the loan portfolio and the securities portfolio both show a very heavy incidence of public sector exposures:

1) As of December 2021, government-related loan exposures accounted for 91% of loans to customers. This included EUR 157bn in a treasury account with the central government and EUR 82bn in other government loans, including loans to government agencies (essentially Italian regions and other public administrations).

1) The securities portfolio mainly comprises securities held at amortised cost (around 80%), and it is composed almost entirely of government bonds that are primarily fixed-rate and inflation-linked. 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.

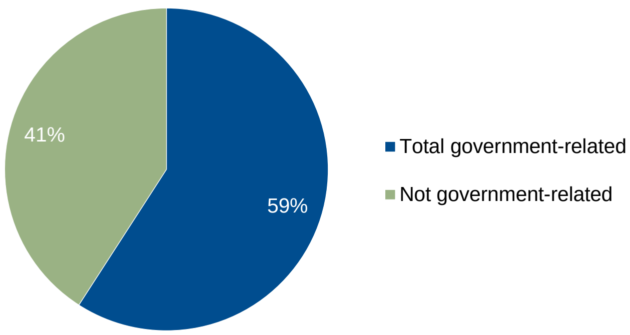
In other words, around 59% of the CDP Group's consolidated balance sheet reflects government-related risk (essentially Italian sovereign risk).

Figure 5: CDP Group's loans to customers as of YE 2021, detail



Source: CDP, Scope Ratings

Figure 6: Total consolidated asset breakdown as of YE 2021



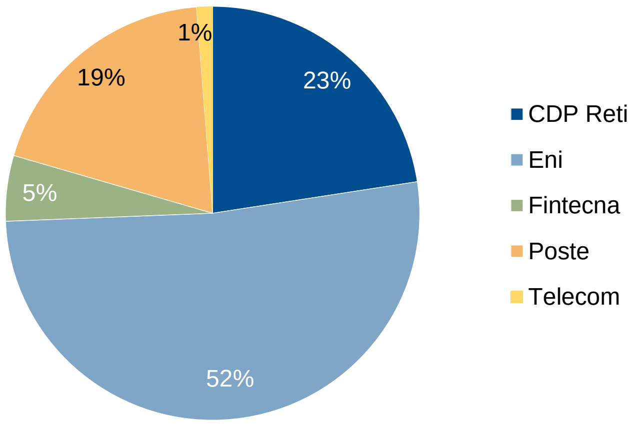
Source: CDP, Scope Ratings
Note: Government-related exposures include the state treasury account, loans to government and government agencies and Italian sovereign debt

CDP's scope of intervention is not limited to providing credit. The group can hold stakes in companies as long as they are in the national interest.

Dividends from equity stakes provide revenue diversification

While relatively limited in terms of total assets (EUR 21bn as of 31 December 2021), these holdings represent an important source of revenue for CDP, especially in recent years as CDP's revenue has been under pressure from the very low interest rate environment. Against this backdrop, dividends from equity stakes have proved to be an important additional revenue source. The transfer of SACE to the MEF, as prescribed by Decree Law 104/2020[2], has negatively impacted the diversification of dividend streams, which was partially offset by the dividend from Telecom in 2021.

Figure 7: CDP's sources of dividend income, 2021



Source: CDP, Scope Ratings

Guaranteed postal savings provide funding stability

CDP's main source of funding consists of postal savings (EUR 281bn as of YE 2021) in the form of passbooks or bonds. These liabilities are guaranteed explicitly by the Italian state, issued by CDP and distributed via Poste Italiane S.p.A.'s network. Despite being legally defined as sight liabilities, this source of funding has been very stable. As a funding source, postal savings are inexpensive and not very price-sensitive.

In recent years, CDP has started to diversify funding away from postal passbooks and bonds through wholesale market issuance.

Increased use of market issuance to diversify funding

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 papers under its EUR 6bn multi-currency programme.

As of June 2022, around EUR 18bn of bonds were outstanding (including commercial papers).

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 only absorb losses in a scenario of CDP's insolvency, pro-rata with postal savings. 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: the government would provide equity injections if needed and for as long as the country had the financial means to do so.

[2] Art. 67. Riassetto gruppo SACE

Another important source of funding are *Operazioni per conto del Tesoro*, short-term deposits provided by the Italian government. The MEF uses these operations to manage the treasury's liquidity account. Excess liquidity is collected or assigned via a daily auction. The balance of these short-term deposits stood at around EUR 5bn as of YE 2021.

Lastly, CDP has access to ECB funding: after repaying a sizeable PELTRO line, TLTRO funding as of YE 2021 stood at EUR 5bn.

A multi-legged approach to sustainability

CDP's public strategic commitment to sustainability aims to contribute to the United Nations' 2030 Agenda (SDGs) in harmony with Italy's priorities and the group's main areas of intervention.

We would highlight the following milestones in CDP's path towards sustainability:

- In 2019, CDP started mapping its financing and investment activity in line with the UN SDGs.
- 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 guiding the governance model was included in the by-laws, at the same time the risk committee's responsibilities were expanded. Monitoring, impact analysis and policy adaptation phases of ESG investing were added to the operating model.
- In H1 2022, in line with the 2022-2024 Strategic plan, the first ESG plan was approved. This includes targets for own emissions, digitalisation (cloud) and gender diversity in senior positions.

CDP has been active in the social and sustainable bonds space since 2017, with seven issuances comprising EUR 4.25bn of social bonds and EUR 1.25bn of sustainability 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		75		
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)

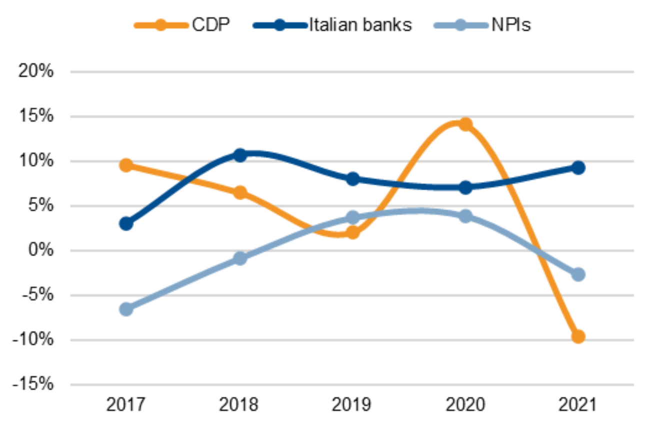
Analytical pillar	Analytical component	Weights	Assessments				Pillar assesment
			Limited (1)	Medium (50)	High (100)	Not applicable	
Control and regular support	Strategic and operational decision making	33%	○	◉	○	○	Medium
	Key personnel, governing & oversight bodies	33%	○	○	◉	○	
	Ordinary financial support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

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

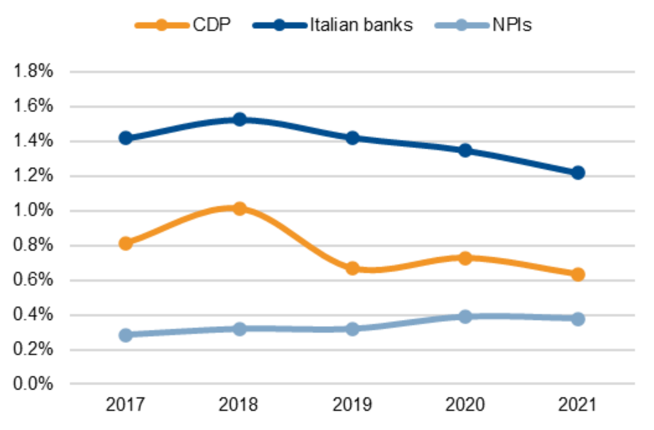
Equalisation factor	No
Overall assessment	High
Indicative notching	0-1
Additional adjustment	-
Final indicative notching	**0-1**

I. Appendix: Peer comparison

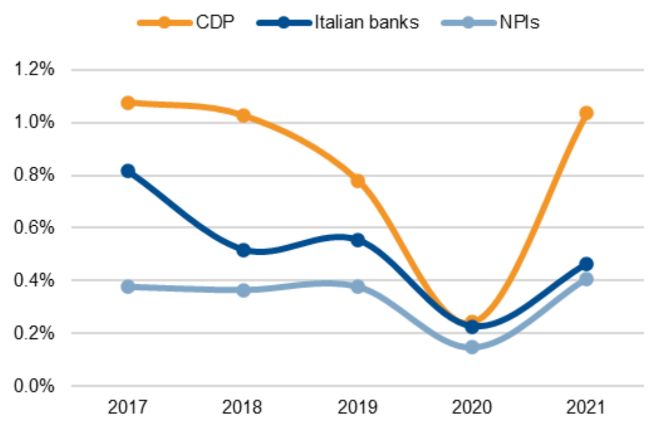
Net loan growth* (%)**



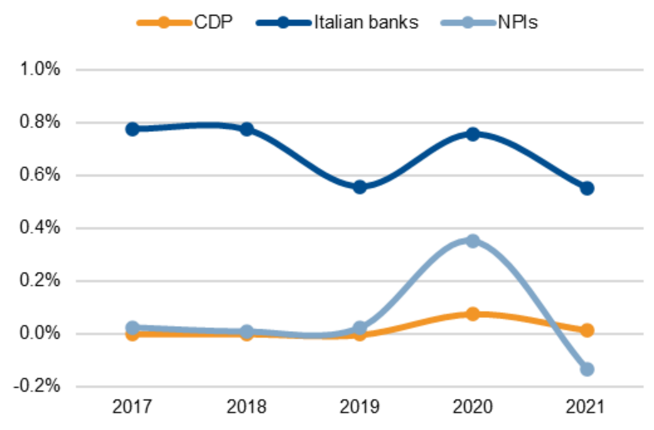
Net interest margin (%)



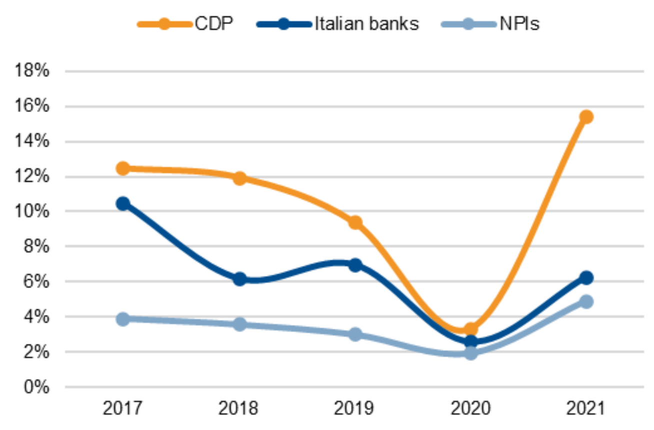
ROAA (%)



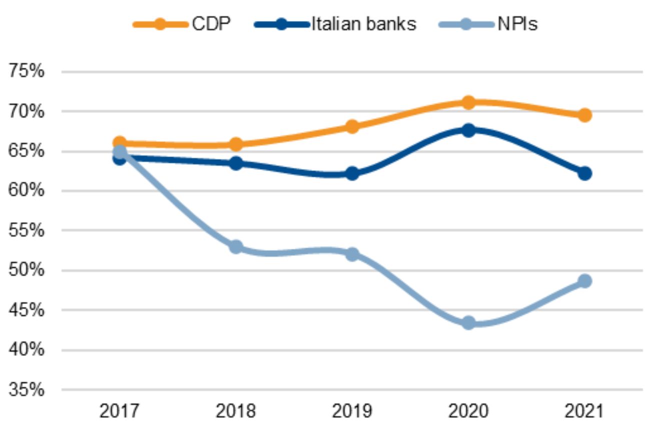
Loan-loss provision charges/gross loans* (%)**



ROAE (%)



Cost-to-income ratio (%)



Source: 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 S.p.A. (CDP)

	2018	2019	2020	2021	H1 2022
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	24,734	32,629	48,553	45,013	37,621
Total securities	16,182	18,575	20,639	20,282	17,625
of which, derivatives	944	1,966	3,192	1,634	1,601
Net loans to customers	305,798	312,022	356,110	321,673	328,774
Other assets	78,368	85,498	87,103	130,126	101,330
Total assets	**425,083**	**448,724**	**512,405**	**517,094**	**485,351**
Liabilities					
Interbank liabilities	40,906	41,840	62,303	49,726	54,858
Senior debt	37,000	41,333	42,851	44,031	39,932
Derivatives	934	3,164	4,962	3,281	1,680
Deposits from customers	288,788	302,014	311,418	321,735	324,943
Subordinated debt	532	532	532	0	0
Other liabilities	20,191	23,732	56,643	62,879	25,925
Total liabilities	**388,350**	**412,614**	**478,709**	**481,652**	**447,338**
Ordinary equity	24,056	23,550	20,436	21,163	22,140
Equity hybrids	0	0	0	0	0
Minority interests	12,676	12,560	13,260	14,279	15,874
Total liabilities and equity	**425,083**	**448,724**	**512,405**	**517,094**	**485,351**
Core tier 1/ common equity tier 1 capital	*NA*	*NA*	*NA*	*NA*	*NA*
Income statement summary (EUR m)					
Net interest income	3,485	2,380	2,876	2,583	1,353
Net fee & commission income	-1,126	-1,076	-1,004	-950	-503
Net trading income	-115	646	533	578	188
Other income	12,027	13,031	15,145	18,472	10,909
Operating income	**14,271**	**14,980**	**17,549**	**20,682**	**11,947**
Operating expenses	9,403	10,203	12,483	14,371	7,162
Pre-provision income	**4,868**	**4,778**	**5,066**	**6,311**	**4,785**
Credit and other financial impairments	123	-17	254	41	-79
Other impairments	-1,048	-209	2,119	-1,574	NA
Non-recurring income	0	0	0	0	0
Non-recurring expense	0	0	0	0	0
Pre-tax profit	**5,793**	**5,004**	**2,693**	**7,845**	**4,441**
Income from discontinued operations	0	-28	-38	-1,170	-5
Income tax expense	1,459	1,565	1,490	1,351	718
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	1,443	1,627	1,533	2,344	894
Net profit attributable to parent	**2,891**	**1,784**	**-369**	**2,980**	**2,824**

Source: SNL

III. Appendix: Ratios – Cassa Depositi e Prestiti S.p.A. (CDP)

	2018	2019	2020	2021	H1 2022
Funding and liquidity					
Net loans/ deposits (%)	106%	103%	114%	100%	101%
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 (%)	71.9%	69.5%	69.5%	62.2%	67.7%
Problem loans/ gross customer loans (%)	0.0%	0.0%	0.0%	0.0%	NA
Loan loss reserves/ problem loans (%)	757.5%	697.0%	823.8%	716.1%	NA
Net loan growth (%)	6.5%	2.0%	14.1%	-9.7%	4.4%
Problem loans/ tangible equity & reserves (%)	0.5%	0.6%	0.7%	0.7%	NA
Asset growth (%)	1.3%	5.6%	14.2%	0.9%	-12.3%
Earnings and profitability					
Net interest margin (%)	1.0%	0.7%	0.7%	0.6%	0.7%
Net interest income/ average RWAs (%)	NA	NA	NA	NA	NA
Net interest income/ operating income (%)	24.4%	15.9%	16.4%	12.5%	11.3%
Net fees & commissions/ operating income (%)	-7.9%	-7.2%	-5.7%	-4.6%	-4.2%
Cost/ income ratio (%)	65.9%	68.1%	71.1%	69.5%	59.9%
Operating expenses/ average RWAs (%)	NA	NA	NA	NA	NA
Pre-impairment operating profit/ average RWAs (%)	NA	NA	NA	NA	NA
Impairment on financial assets / pre-impairment income (%)	2.5%	-0.4%	5.0%	0.6%	-1.6%
Loan loss provision/ average gross loans (%)	NA	0.0%	0.1%	0.0%	NA
Pre-tax profit/ average RWAs (%)	NA	NA	NA	NA	NA
Return on average assets (%)	1.0%	0.8%	0.2%	1.0%	1.5%
Return on average RWAs (%)	NA	NA	NA	NA	NA
Return on average equity (%)	11.9%	9.4%	3.3%	15.4%	20.2%
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

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