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

STABLE
BBB+

Overview

On 17 December 2018, Scope Ratings has downgraded CDP's Issuer Rating to BBB+ (from A-) and changed the outlook to Stable from Negative. Senior unsecured debt ratings were also downgraded to BBB+, Stable Outlook. The short-term rating was downgraded to S-2, with Stable Outlook.

Highlights

- The ratings reflect CDP's unique business model, as the Italian National Promotional Institution (NPI), and the majority ownership by the Italian government (rated BBB+, Stable Outlook), which in our view would fully support CDP in case of need.
- Additionally, the ratings reflect the very strong implicit and explicit links with the Italian sovereign in terms of assets and liabilities. Reflecting its mission as the Italian NPI, CDP's exposure to Italian public finance (governmental and local) is very material.
- The ratings also acknowledge CDP's strong standalone fundamentals, which are notable compared to other financial institutions in the country. In particular, our analysis highlights the portfolio of equity stakes as a source of standalone strength for CDP, as it provides a reliable flow of dividends, which is a useful source of revenue diversification into non-government-related activities.

Rating drivers (summary)

The rating drivers, in decreasing order of importance in the rating assignment, are:

- Status as Italy's NPI and high likelihood of support from the Italian government, its major shareholder
- A majority of assets that ultimately reflect Italian sovereign risk
- Italian government's explicit and implicit guarantees on CDP's liabilities
- Strong financial fundamentals, largely reflecting CDP's business model
- High-quality equity stakes providing a reliable flow of dividends

Ratings & Outlook

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

Lead Analyst

Marco Troiano, CFA
m.troiano@scoperatings.com

Team Leader

Sam Theodore
s.theodore@scoperatings.com

Scope Ratings GmbH

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 203-457 0 4444

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Rating-change drivers

A material change in the Republic of Italy's credit fundamentals. We currently rate Italy at BBB+ with Stable Outlook. The rating reflects Italy's large and diversified economy, relatively strong budgetary position, and well-progressing structural reforms. Italy also benefits from a favourable debt structure and a sustainable pension system. However, these strengths are balanced by significant challenges such as high public debt, growth below potential, residual fragilities in the banking sector and political uncertainties.

A change in our assessment of Italy's credit standing would likely affect CDP's ratings.

A material decrease in the level of expected support from the Republic of Italy coupled with a shift in balance sheet towards riskier activities. The Issuer Rating benefits from the high likelihood of governmental support, including on CDP's non-guaranteed liabilities. Evidence that such support may not be forthcoming would negatively affect the rating. This would especially be the case should CDP's activities contextually move away from its historical, low-risk profile and into riskier segments.

Rating drivers (details)

Status as Italy's NPI and high likelihood of support from the Italian government, its major shareholder.

CDP is Italy's NPI, with the mission to support and promote Italy's economic development.

While its historical role had focused on channelling postal savings towards public infrastructure as well as Italian government and public administration finances, more recently CDP's scope of activities has broadened.

Compared to its previous strategy, the 2019-2021 business plan envisages a greater role for CDP as a strategic investor in Italian enterprises, infrastructures projects and public administrations. CDP's interventions going forward will not only emphasize economic and financial logic, but also a more industrial approach to boost sustainable development in Italy. The plan also earmarks resources for co-financing projects in developing markets.

CDP maintains a separate system of organisational accounting for activities of general interest (the separate account), which can be funded by postal savings, and residual activities (the ordinary account), which cannot be funded by postal savings. At the end of 2017, the separate account made up EUR 349bn of the EUR 367bn in total assets.

CDP is owned and controlled by the Italian Ministry of Economy and Finance (83%), although its governance structure protects it from excessive political interference: banking foundations (16%) are minority partners but, according to the list voting mechanism detailed in CDP's bylaws, can appoint three out of nine board members, including the chairman, meaning the foundations can block any action that requires a qualified majority. In addition, CDP can only invest in projects deemed economically and financially sustainable and therefore cannot bail out unviable businesses.

Due to its mission, and the patience of its shareholders, CDP can take a long-term approach to its investments, often filling a void left by market actors with a narrower focus on short-term profitability. Postal savings are a stable and inexpensive source of funding, providing CDP with a key competitive advantage in its markets.

While CDP's own statute and reinforced governance rights for the banking foundations are important for managing potential conflicts of interest with the Italian government, we believe the main protection against state interference is CDP's classification 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 government sector and its debt is not consolidated into Italian government debt, leaving public-debt statistics unaffected, including on the European accounting framework (ESA). Likewise, the Italian treasury's guarantee on postal savings does not enter government-debt statistics for Maastricht purposes, unless called upon.

Similar to other development institutions[1], CDP is classified as Credit Institution by the ECB. It is therefore subject to a reserve requirement, but not to CRD4/CRR. In Italy, CDP is supervised by a parliamentary committee and the Court of Auditors (Corte dei Conti). Since 2004, CDP has been subject to "informative supervision" by the Bank of Italy, but no regulation specific to CDP has been issued.

CDP's business model makes it unique in the Italian context. Compared to banks, its asset exposures tend to be better quality (in large part aligned to Italian sovereign risk), and its main funding sources – postal savings and bonds – compete directly with bank

[1] KfW, ICO and CDC are subject to ECB reserve requirements but not to CRD4/CRR.

deposits. Comparisons to other European NPIs are more warranted; yet each of these institutions have their own peculiarities.

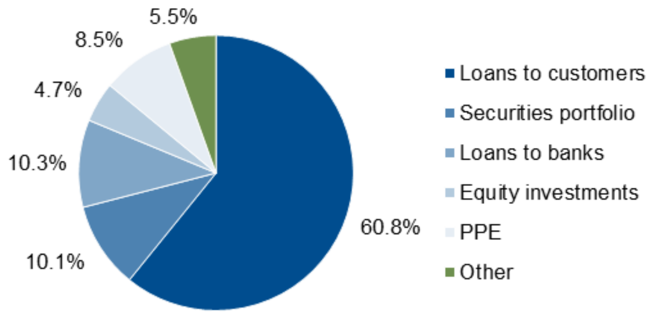
CDP's public mission and ownership structure indicate a strong level of integration with the government of Italy (rated BBB+, Stable Outlook). Despite the absence of an explicit guarantee on CDP's market liabilities, we believe that exceptional government support would be forthcoming if needed. Details of our support assumptions can be found in Appendix VI.

A majority of assets that ultimately reflect Italian sovereign risk

CDP's assets are inherently low risk, a feature that may not be immediately evident when comparing its statutory balance sheet with those of other retail banks (see Figure 1). Loans to customers account for c. 60% of total assets, the securities portfolio for 10%, and the remainder are loans to banks, physical assets[2] and equity investments. On closer inspection the security portfolio, which mainly comprises held-to-maturity and available-for-sale assets, is composed almost entirely of government bonds, primarily fixed-rate and inflation-linked. These bonds form part of CDP group's liquidity reserves and partly hedge the profitability of its postal savings against falling interest rates. Government-related loan exposures account for 92% of loans to customers, which include EUR 149bn in a treasury account with the central state, EUR 44bn in other government loans, and EUR 47bn in loans to government agencies (essentially Italian regions and other public administrations).

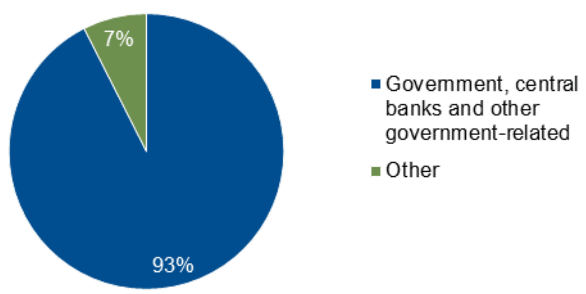
In other words, at least 70% of the total consolidated balance sheet of the CDP group reflects government-related risk (i.e. essentially Italian sovereign risk).

Figure 1: CDP's consolidated total assets, overview



Source: CDP, Scope Ratings

Figure 2: CDP's securities portfolio, detail



Source: CDP, Scope Ratings

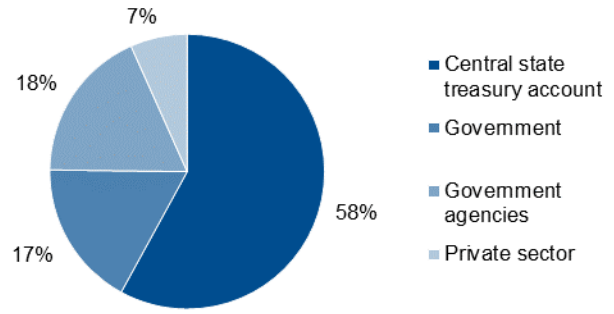
Direct loans to the private sector (c. EUR 17bn) include lending to financial and non-financial corporations, with a tilt towards large corporations operating in highly regulated sectors.

Loans to banks, which also include a non-immaterial central bank exposure (EUR 24bn in reserve requirement), are granted primarily to Italian financial institutions and linked to on-lending schemes (SME fund, Capital Goods Fund, etc.), which support SMEs and assist the reconstruction of areas stricken by natural disasters (Abruzzo, Emilia). These schemes only entail liquidity provisions, while the credit risk related to SMEs ultimately rests on the banks. CDP's credit risk is therefore limited to the banking counterparties,

[2] CDP group has c. EUR 36bn in PPE. The vast majority of these pertains to the electrical and gas network assets of Terna and Snam, subsidiaries of the group.

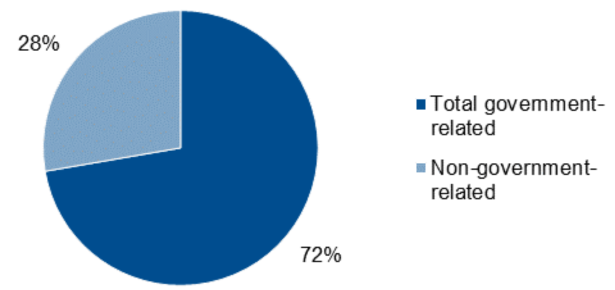
which we consider relatively safe given the strong credit profile of banks' senior obligations within the new post-crisis regulatory framework.

Figure 3: CDP group's loans to customers, detail



Source: CDP, Scope Ratings

Figure 4: Total consolidated asset split



Source: CDP, Scope Ratings
Note: Government-related exposures include the state treasury account, loans to government and government agencies, central bank reserves, and government and central bank securities

Italian government's explicit and implicit guarantees on CDP's liabilities

CDP's main source of funding consists of postal savings in the form of passbooks or bonds. These liabilities are guaranteed explicitly by the Italian state, issued by CDP, and distributed via the Poste Italiane S.p.A. network against a fee. Despite being legally sight liabilities, this source of funding has been very stable.

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

Aside from postal passbooks and bonds, CDP issues bonds in the wholesale market. Outstanding bonds include:

- EUR 2.5bn (2015 and 2017) in privately placed bonds (bought by Poste Italiane), explicitly guaranteed by the state;
- EUR 1.5bn (2015) in a retail bond;
- the EMTN programme (launched in 2005, EUR 13bn maximum), including both private and public placements; at the end of 2017, c. EUR 7.8bn of bonds are outstanding;
- EUR 2.8bn (Q4 2017) in commercial paper programme for up to EUR 6bn, launched in 2014; and
- Debt issuance programme (DIP), launched in 2015 for up to EUR 10bn. As of December 2017, the total outstanding stood at EUR 2.9bn, of which EUR 2.6bn issued in 2017, including CDP's first social bond to support Italian SMEs (EUR 0.5bn).

The bonds under the EMTN and DIP programmes are not guaranteed explicitly by the state, but rely on CDP's own credit strength; however, these bonds legally rank pari passu with postal bonds and passbooks. Therefore the bonds would only absorb losses in a scenario in which CDP became insolvent, pro-rata with the 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 to be extremely unlikely because CDP is systemically important for the Italian economy, public administration finances and treasury liquidity management. Given this we believe the government would provide equity injections if needed and as long as the country has the financial means to do so.

Another important source of funding is the Operazioni di Tesoreria (OPTES), short-term deposits by the Italian government. Through these operations, the Bank of Italy manages the treasury's liquidity account on behalf of the Ministry of Economy and Finance. Required or excess liquidity is collected or assigned via a daily auction. The balance of OPTES liabilities at year-end 2017 stood at EUR 22.5bn.

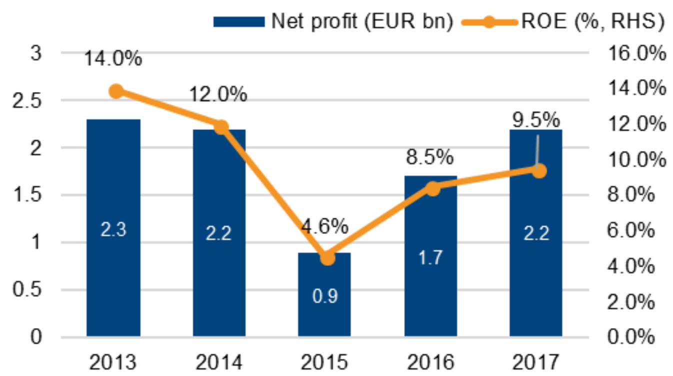
Strong financial fundamentals, largely reflecting CDP's business model

CDP's financial fundamentals are strong despite the adverse impact from the low interest rates, which especially dampens one of its main comparative advantages – access to stable and cheap captive postal savings. Despite the erosion of net interest income in recent years, CDP S.p.A. reported a 9.5% ROE in 2017, which outperforms not only most Italian banks but also many in Europe.

In particular, since 2015 CDP's profitability has increased by 147% to EUR 2.2bn (from EUR 900m), mainly driven by a jump in net interest income from EUR 0.9bn to EUR 3.0bn. This was attributed especially to:

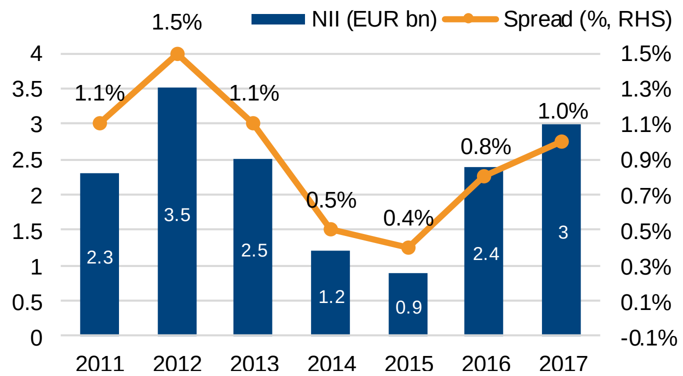
- A re-negotiation of the treasury account's remuneration to align it with market remuneration of government debt with similar effective maturity[3]; and
- Managerial actions aimed at better asset and liability management, resulting in a greater markdown on interest bearing liabilities.

Figure 5: Net income and ROE



Source: CDP, Scope Ratings

Figure 6: Net interest income and spread



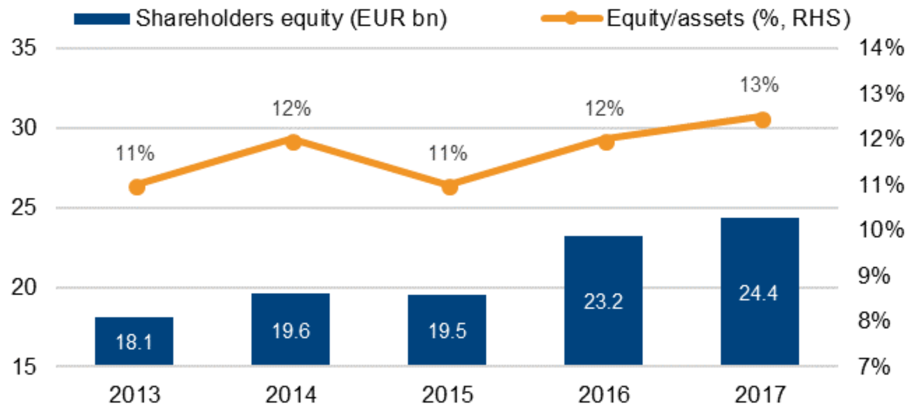
Source: CDP, Scope Ratings

CDP's unique features explain the profitability gap to other Italian financial institutions. Aside from privileged access to postal savings (for which Poste receives a commission) and the profitable treasury account, we highlight CDP's entirely different cost of risk compared to those of Italian commercial banks. This is driven by a much lower level of non-performing loans and is related directly 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 like public administrations and banks (see Figure 3).

With respect to capital, it is important to stress that CDP is not formally subject to CRD4/CRR requirements, but to informational supervision by the Bank of Italy. Therefore, CDP is not required to disclose regulatory capital ratios. Accounting equity has been increasing in line with assets and is stable at c. 13% of total assets (net of cash).

[3] The treasury account's rate of remuneration is based on a weighted average of Italian 10-year treasury bonds and six-month treasury bills (with 80% and 20% weights, respectively)

Figure 7: Equity base is stable as a percentage of assets (net of cash)

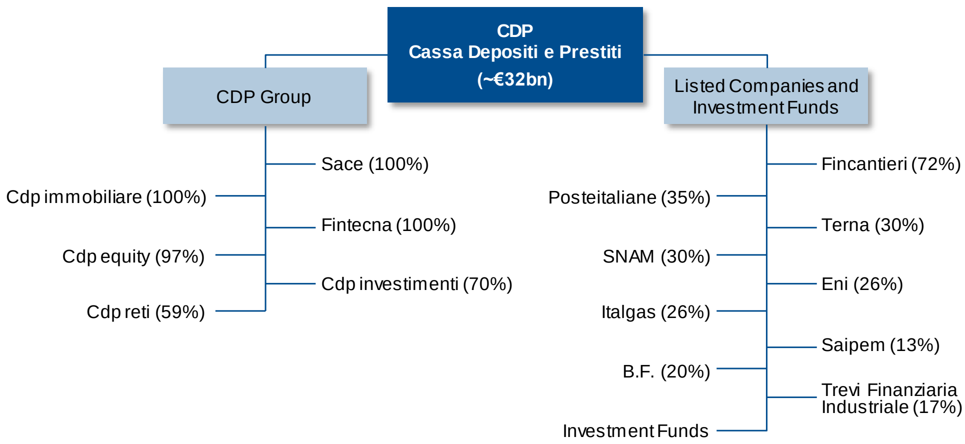


Source: CDP, Scope Ratings

High-quality equity stakes providing a reliable flow of dividends – a key revenue source in the current interest rate environment

CDP's modalities of intervention are not limited to providing credit. The group can hold stakes in companies, as long as these are in the national interest. Figure 9 offers an overview of CDP's main equity investments.

Figure 8: CDP group structure and main equity stakes (2017)



Source: CDP

CDP's equity investments can be grouped in four types of intervention:

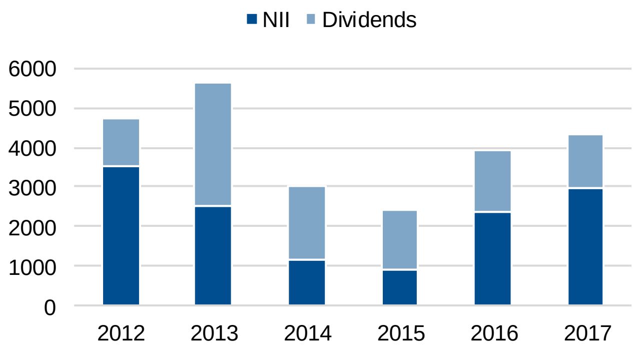
1. **Asset preservation.** CDP is a long-term shareholder in Italian corporations deemed strategically important, such as ENI, Poste Italiane and Fincantieri, among others.
2. **Private-sector promotion**. Through a number of funds, often in partnership with other investors, CDP acts as a catalyst to promote entrepreneurship and to stimulate underdeveloped markets.
3. **International development.** Through the fully owned SACE/SIMEST group, CDP supports the international expansion of Italian companies.
4. **Asset enhancement.** A number of dedicated investment funds support public administrations to valorise and dispose of real estate portfolios. A dedicated fund to support tourism promotes the separation between real estate and hotel business management.

According to the strategic guidelines presented in December 2018, CDP's equity stakes will be reorganised, over the coming quarters, to better reflect their industrial logic, in order to maximise the synergies between the different companies.

Scope believes this approach makes sense as it not only allows for knowledge and best practice sharing but also fosters the creation of industry-specific competence areas within CDP management.

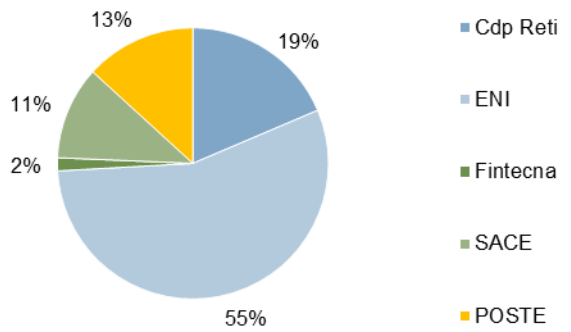
These companies, while relatively limited in terms of total assets, represent an important source of revenue for CDP. In recent years, CDP's revenues have been under pressure from the very low interest rate environment. As a funding source, postal savings are stable, inexpensive, and not very price-sensitive. However, as market rates have been declining, the margins on these products have been shrinking, putting pressure on CDP's profitability. In 2016 trends on net interest income partly reversed, as a result of the re-negotiation of the treasury account's remuneration as well as managerial actions aimed at improving asset and liability management. In 2017 the participating companies contributed over EUR 1.4bn in dividends to CDP, an amount comparable to the previous few years. It is worth noting that dividends, particularly from ENI, represent a key element of revenue diversification for CDP and a support to its profitability.

Figure 9: NII vs dividends



Note: 2013 includes exceptional dividend from SACE and Fintecna Source: SNL, Scope Ratings

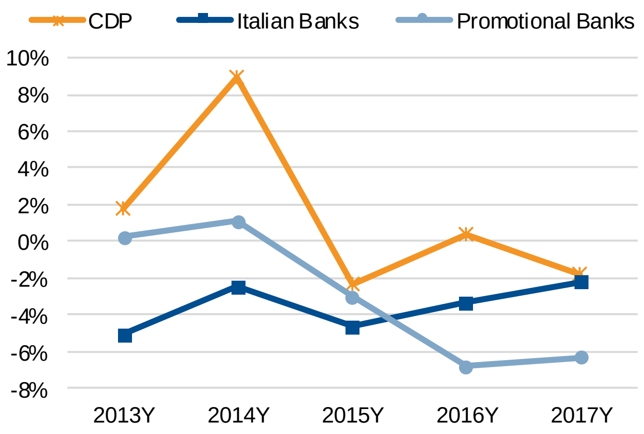
Figure 10: Dividend income sources for CDP S.p.A. 2017



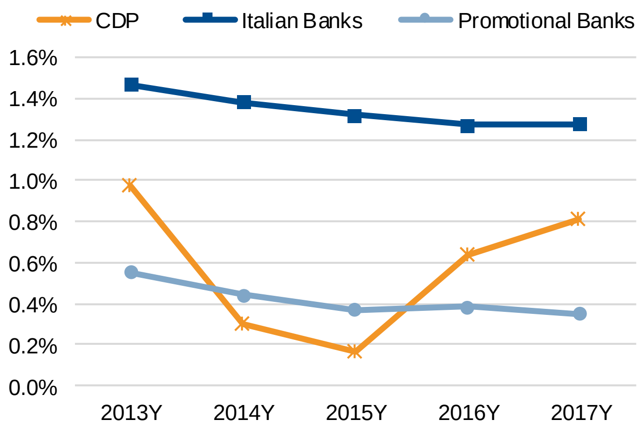
Source: CDP, Scope Ratings

I. Appendix: Peer comparison

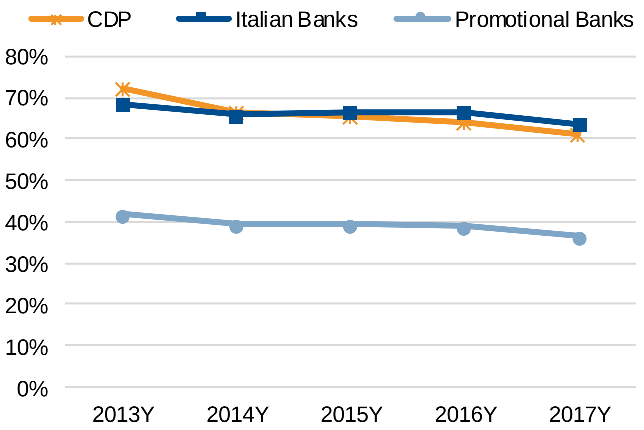
Net loan growth (%)



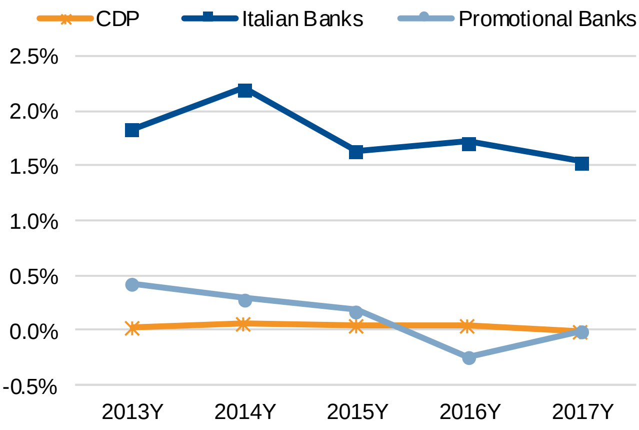
Net interest margin (%)



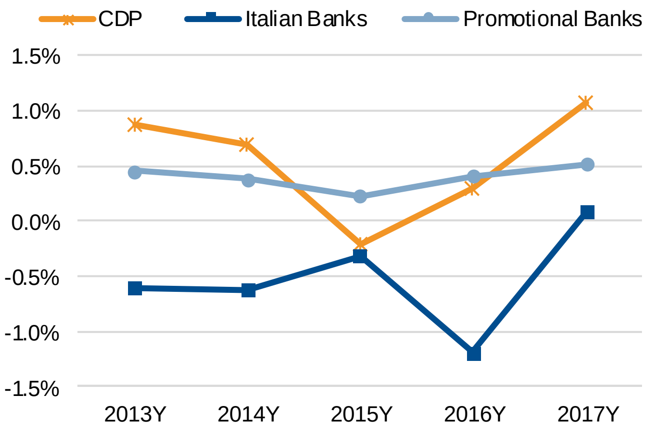
Net loans/assets (%)



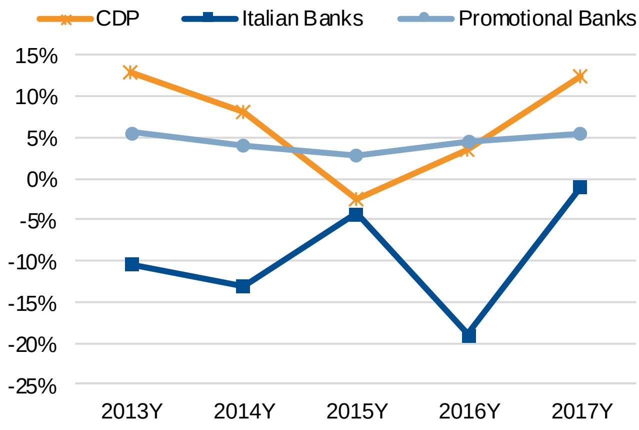
Loan-loss provision charges/gross loans (%)



ROAA (%)



ROAE (%)



Source: SNL, Scope Ratings
Note: CDP data refers to group consolidated financials

*Promotional Institutions: CDP Group, CDC, KfW, ICO, BNG Bank, EIB, NRW Bank, Landeskreditbank
**Italian Banks: CDP Group Unicredit, Intesa, MPS, Banco BPM, UBI, Carige, BPER, BP Sondrio

II. Appendix: Income statement – CDP S.p.A.

Cassa Depositi e Prestiti Spa (unconsolidated)	2012Y	2013Y	2014Y	2015Y	2016Y	2017Y
Income statement summary (EUR m)						
Net interest income	3,522	2,539	1,161	905	2,369	2,965
Net commission income (expense)	-1,612	-1,583	-1,591	-1,553	-1,484	-1,471
Dividends and similar revenues	1,207	3,089	1,847	1,538	1,571	1,355
Net gain (loss) on trading activities	156	76	13	70	6	-9
Net gain (loss) on hedging activities	-10	-15	-44	5	1	13
Gains (losses) on disposals or repurchase	390	16	340	400	25	43
Gross income	**3,653**	**4,122**	**1,726**	**1,364**	**2,486**	**2,893**
Net impairment adjustments	-23	-45	-131	-96	-457	-109
Financial income (expense), net	3,630	4,077	1,595	1,269	2,029	2,784
Administrative expenses	-103	-120	-128	-131	-136	-145
Net provisions	-2	0	-2	-18	-1	0
Net adjustments of property, plant and equipment	-5	-5	-5	-5	-5	-4
Net adjustments of intangible assets	-2	-2	-2	-2	-2	-3
Other operating income (costs)	4	5	4	-18	4	5
Operating costs	**-110**	**-123**	**-133**	**-174**	**-141**	**-147**
Gains (losses) on equity investments	147	-1,009	938	-209	-270	29
Gains (losses) on disposal of investments	0	0	0	0	0	0
Income (loss) before tax from continuing operations	**3,667**	**2,945**	**2,400**	**885**	**1,618**	**2,666**
Income tax for the year on continuing operations	-815	-597	-230	8	44	-463
Income (loss) for the year	**2,853**	**2,349**	**2,170**	**893**	**1,663**	**2,203**

Source: SNL, Scope Ratings

III. Appendix: Balance sheet – CDP S.p.A.

Cassa Depositi e Prestiti Spa (unconsolidated)	2012Y	2013Y	2014Y	2015Y	2016Y	2017Y
Income statement summary (EUR m)						
Net interest income	3,522	2,539	1,161	905	2,369	2,965
Net commission income (expense)	-1,612	-1,583	-1,591	-1,553	-1,484	-1,471
Dividends and similar revenues	1,207	3,089	1,847	1,538	1,571	1,355
Net gain (loss) on trading activities	156	76	13	70	6	-9
Net gain (loss) on hedging activities	-10	-15	-44	5	1	13
Gains (losses) on disposals or repurchase	390	16	340	400	25	43
Gross income	**3,653**	**4,122**	**1,726**	**1,364**	**2,486**	**2,893**
Net impairment adjustments	-23	-45	-131	-96	-457	-109
Financial income (expense), net	3,630	4,077	1,595	1,269	2,029	2,784
Administrative expenses	-103	-120	-128	-131	-136	-145
Net provisions	-2	0	-2	-18	-1	0
Net adjustments of property, plant and equipment	-5	-5	-5	-5	-5	-4
Net adjustments of intangible assets	-2	-2	-2	-2	-2	-3
Other operating income (costs)	4	5	4	-18	4	5
Operating costs	**-110**	**-123**	**-133**	**-174**	**-141**	**-147**
Gains (losses) on equity investments	147	-1,009	938	-209	-270	29
Gains (losses) on disposal of investments	0	0	0	0	0	0
Income (loss) before tax from continuing operations	**3,667**	**2,945**	**2,400**	**885**	**1,618**	**2,666**
Income tax for the year on continuing operations	-815	-597	-230	8	44	-463
Income (loss) for the year	**2,853**	**2,349**	**2,170**	**893**	**1,663**	**2,203**

Source: SNL, Scope Ratings

IV. Appendix: Selected financial information – CDP Group

	2013Y	2014Y	2015Y	2016Y	2017Y
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	18,017	28,533	28,141	27,218	43,079
Total securities	29,982	32,577	35,342	44,686	43,355
of which, derivatives	1,479	1,868	1,847	1,399	1,067
Net loans to customers	245,794	267,428	261,044	261,957	257,257
Other assets	46,675	73,142	74,344	76,662	75,843
Total assets	**340,467**	**401,680**	**398,871**	**410,522**	**419,534**
Liabilities					
Interbank liabilities	27,875	21,809	23,523	25,692	25,935
Senior debt	13,568	26,915	29,555	27,576	37,225
Derivatives	2,139	3,086	1,286	1,297	886
Deposits from customers	258,783	296,257	291,800	302,190	300,332
Subordinated debt	0	0	532	532	532
Other liabilities	14,603	18,457	17,622	17,459	18,703
Total liabilities	**316,967**	**366,523**	**364,317**	**374,746**	**383,612**
Ordinary equity	19,295	21,371	20,199	22,625	23,061
Equity hybrids	0	0	0	0	0
Minority interests	4,205	13,786	14,354	13,151	12,860
Total liabilities and equity	**340,467**	**401,680**	**398,871**	**410,522**	**419,534**
Core tier 1/Common equity tier 1 capital	NA	NA	NA	NA	NA
Income statement summary (EUR m)					
Net interest income	2,841	925	551	2,106	2,761
Net fee & commission income	-1,548	-1,633	-1,576	-1,463	-1,468
Net trading income	318	556	1,239	25	-277
Other income	7,394	11,239	7,657	9,956	13,637
Operating income	**9,005**	**11,087**	**7,871**	**10,625**	**14,653**
Operating expense	4,818	7,753	8,052	8,115	8,825
Pre-provision income	**4,186**	**3,334**	**-181**	**2,510**	**5,828**
Credit and other financial impairments	56	166	116	479	141
Other impairments	3	0	53	40	28
Non-recurring items	0	0	0	0	0
Pre-tax profit	**4,127**	**3,168**	**-350**	**1,991**	**5,658**
Discontinued operations	0	162	7	0	0
Other after-tax Items	0	0	0	0	0
Income tax expense	1,228	671	515	766	1,197
Net profit attributable to minority interests	398	1,501	1,389	975	1,518
Net profit attributable to parent	**2,501**	**1,158**	**-2,246**	**250**	**2,943**

Source: SNL, Scope Ratings

Note: CDP group consolidated financials include the revenue and cost evolution of CDP's group subsidiaries, which can be volatile, reflecting amongst other factors, energy and commodity prices.

V. Appendix: Ratios – CDP group

	2013Y	2014Y	2015Y	2016Y	2017Y
Funding and liquidity					
Net loans/deposits (%)	95.0%	90.3%	89.5%	86.7%	85.6%
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 (%)	72.2%	66.6%	65.4%	63.8%	61.3%
NPLs/net loans (%)	0.1%	0.2%	0.2%	0.2%	0.3%
Loan-loss reserves/NPLs (%)	73.7%	49.6%	57.5%	72.2%	70.0%
Net loan growth (%)	1.8%	9.0%	-2.4%	0.3%	-1.8%
NPLs/tangible equity and reserves (%)	1.7%	1.9%	2.0%	2.2%	2.5%
Asset growth (%)	3.5%	9.4%	-0.7%	2.9%	2.2%
Earnings and profitability					
Net interest margin (%)	1.0%	0.3%	0.2%	0.6%	0.8%
Net interest income/average RWAs (%)	NA	NA	NA	NA	NA
Net interest income/operating income (%)	31.5%	8.3%	7.0%	19.8%	18.8%
Net fees & commissions/operating income (%)	-17.2%	-14.7%	-20.0%	-13.8%	-10.0%
Cost/income ratio (%)	53.5%	69.9%	102.3%	76.4%	60.2%
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 (%)	1.3%	5.0%	NA	19.1%	2.4%
Loan-loss provision charges/net loans (%)	0.0%	0.1%	0.0%	0.0%	0.0%
Pre-tax profit/average RWAs (%)	NA	NA	NA	NA	NA
Return on average assets (%)	0.9%	0.7%	-0.2%	0.3%	1.1%
Return on average RWAs (%)	NA	NA	NA	NA	NA
Return on average equity (%)	13.0%	8.1%	-2.5%	3.5%	12.4%
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, Scope Ratings

Note: CDP group consolidated financials include the revenue and cost evolution of CDP's group subsidiaries, which can be volatile, reflecting amongst other factors, energy and commodity prices.

VI. Appendix: Support assumptions determination

Given the strong level of integration with the Italian government, we apply a top-down approach in accordance with our methodology for Government Related Entities (GREs). Under this approach, and given the high likelihood of exceptional support by the government, we believe that no downward notching is warranted for CDP.

Criteria	Level of integration with government	
	High/ Strong	*Limited/ Weak*
Legal Status & Resolution Framework	○ Public; Insolvency, bankruptcy and resolution laws unlikley to apply	◉ Private; Insolvency, bankruptcy and resolution laws do apply
Purpose/ Activities	◉ Good/ service is backed by constitution or in the public interest	○ Good/ service has mostly a commercial purpose
Shareholder Structure & Control	◉ Significant public ownership	○ Mostly private ownership
Approach*	**Bottom-up or Top-down**	

* Two of the three parameters indicate the chosen approach for most instances.

Top-down approach	Analytical considerations		Assessment				Outcome & indicative notching	
				High	*Medium*	*Limited*		
	Equalisation Factor		Statutory guarantee or laws to similiar effect		○ Yes	◉ No	Equalisation	
Control and regular government support	Organisational Structure	Legal Status	○ N/A	○ Government department or similar	◉ Legal structure with significant government involvement	○ Legal structure with limited government involvement	Medium	High
		Ownership of & rights to GRE's assets	○ N/A	◉ Mostly government	○ Somewhat government	○ Public and private		
	Government Control	Mission, mandate and strategy	○ N/A	○ Mostly directed by government	◉ Government-influenced	○ Possible, but mostly independent		
		Financial, operating and investment policies	○ N/A	○ Mostly directed by government	◉ Government-influenced	○ Possible, but mostly independent		
		Key personnel and oversight bodies	○ N/A	◉ Mostly directed by government	○ Government-influenced	○ Possible, but mostly independent		
	Financial Support	Funding options	○ N/A	○ Mostly via government	◉ Mix of government and market funds	○ Mostly market funds		
		Support agreements	○ N/A	○ Regular cash or capital injections	◉ Active/ open credit lines or similar	○ Support framework in place but rarely used		
		Track record	○ N/A	○ History of timely support under all circumstances	○ History of support under select circumstances	◉ Support expected but not yet required		
Likelihood of exceptional support	Strategic importance to government		○ N/A	○ Good/ service protected by the constitution	◉ Disruption of good/ service likely damaging to government; expected political costs	○ Disruption of good/ service unlikely damaging to government; limited political costs	High	
	Ease of substitution		○ N/A	◉ Good/ service is difficult to replace	○ Prospects of private playeres entering the market	○ Private sector operators provide same good/ service		
	Default implications		○ N/A	◉ Large; default likely to affect government's creditworthiness	○ Some financial inter-dependence (eg. Dividends)	○ Limited, not a major concern		

Overall Assessment	Indicative notches
Equalisation	0
High	0-1
Medium	1-2
Limited	2-3

Indicative notching	**0-1**
Additional adjustment	**0**
Final indicative notching	**0-1**

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Paris

1 Cour du Havre
F-75008 Paris

Phone +33 1 8288 5557

London

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 203-457 0 4444

Madrid

Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com