

Cassa depositi e prestiti (CDP) Social Bond Framework

November 3rd, 2017

1. Background

Cassa depositi e prestiti (CDP) is the National Promotional Institution¹, with the public mandate to support the growth of the Italian economy and invest in the competitiveness of the country. Since its establishment in 1850, CDP has always based its activities on socially sustainable principles in commitment to the service of Italy.

CDP is a joint stock company controlled by the Italian Ministry of Economy and Finance, which owns 83% of the share capital. Other shareholders include banking foundations, which hold an overall stake of 16% (the remaining 1% is represented by treasury shares).

CDP finances public investments, promotes international cooperation and is the catalyst for the country's infrastructure growth. It also backs Italian enterprises, helping them innovate and grow, while fostering their exports and international expansion. In particular, CDP provides liquidity to Italian SMEs through the banking system, contributing to the process of job creation and retention. Additionally, as a primary national player in social and affordable housing, CDP contributes to the growth of the Italian real estate sector and promotes urban transformation. CDP also provides financial support to development projects in Italy and internationally, through the provision of corporate loans, project finance, as well as financing through the Revolving Fund for Development Cooperation and infrastructure equity funds.

Due to the changes in the Italian economy, CDP has expanded its original scope over the past decade, becoming the major shareholder for Italian companies of national and international importance, adopting the approach of a stable investor, oriented towards sustainable long-term value creation. At the same time, however, CDP still maintains its traditional role as a key player in financing infrastructure investments of Public and Local Entities in Italy.

Consistent with this scope, CDP's commitment to sustainability comes from the very nature of its business. Given the public interest of its mission and its long-term view, social responsibility and sustainability is at the core of CDP's business model, underpinned by a dedicated Corporate Social Responsibility (CSR) department that promotes social responsibility both with internal and external stakeholders. In addition to specific principles, CDP believes that a Corporate Shared Value Approach, aiming to integrate sustainability into its entire business, can generate better long-term results for the company. Moreover, CDP assesses the economic, social and environmental impact of its investments with a long-term perspective, financing development projects in Italy and abroad through both debt and equity tools, targeting public sector, infrastructure, corporates, export finance and real estate.

CDP's commitment to sustainability, in accordance with international standards and best practices, is clearly highlighted in the company's By-laws, Code of Ethics and Corporate Governance and Responsible Investment Principles:

¹ According to the Italian Budget Law 2016

- **By-laws**²: “The corporate objective of the Company is: [...] Investments in research, development, innovation, protection and leveraging of cultural assets, promotion of tourism, environment and energy efficiency, green economy [...].”
- **Code of Ethics**³: “CDP and the coordinated companies act with full awareness of our role at the service of the country. We assess the economic, social and environmental impact of our actions from a long-term perspective [...]. We recognise the importance of protecting the environment as a primary good and are committed to promoting the rational use of resources in CDP and in the coordinated companies and devoting attention to finding innovative solutions for saving energy.”
- **Corporate Governance and Responsible Investment Principles**⁴, covering the following topics: i) Shareholders responsibility and rights; ii) Corporate Governance Structure; iii) Remuneration; iv) Reporting, accounts and audit; v) Sustainable Business Practices; and vi) Engagement and Communication.

Moreover, CDP’s 2016-2020 Business Plan highlights the four main strategic elements that distinguish the nature of CDP’s activities:

- Promotional activity
- Systemic role
- Complementarity to private sector
- Social sustainability

CDP’s commitment to sustainability is inspired by the United Nations Sustainable Development Goals (UN SDGs)⁵ and is realized by involving all areas of the organization and integrating the concept of sustainability across the business with the aim of creating shared value between CDP and its stakeholders.

² <https://en.cdp.it/about-us/company-info/articles-of-association/articles-of-association.kl>

³ <https://en.cdp.it/about-us/company-info/code-of-ethics/code-of-ethics.kl>

⁴ <https://en.cdp.it/about-us/company-info/corporate-governance-principles/corporate-governance-principles.kl>

⁵ <http://www.undp.org/content/undp/en/home/sustainable-development-goals.html>

2. Rationale

CDP is a key player in the sustainable development of the Italian economy by providing financial support to both companies of national importance and to small and medium enterprises. CDP provides loans and direct equity facilitating growth and international expansion, supporting long term investments, research and development, and generally supporting the entire potential lifecycle of a company, from startup to restructuring.

The Italian industrial system is mainly characterized by small and medium-sized enterprises (SMEs), representing 99.9% of total companies, contributing 67% of total value added and employing 79% of the total workforce⁶. Given their key role in economic growth and the context of high unemployment rate in Italy, supporting SMEs is of crucial importance.

For this purpose, CDP has put in place development policies through the management of lending, based on specific legislation, and economic support mechanisms to provide support to Italian SMEs.

CDP supports Italian SMEs through structured interventions in close synergy with financial institutions, consisting of:

- **Liquidity Platforms:** instruments providing liquidity to SMEs and facilitating access through the banking system⁷; and
- **Risk-Sharing:** instruments allowing financial institutions to optimize capital allocation towards SMEs⁸.

For the purpose of its Social Bond, CDP has currently identified the Liquidity Platforms as sources of potential eligible loans to be financed or refinanced by any CDP Social Bond proceeds.

In particular, Liquidity Platforms are based on specific agreements with the Italian Banking Association (ABI) with established criteria for allocating CDP funding, granting uniform and transparent terms of conditions to access. CDP disburses medium-to-long term financing to banks assuring liquidity also in the long part of the curve and providing to the banks grace periods, a zero-commissions policy and flexibility to use funds in order to cover the financial needs of the SMEs.

CDP funding mainly originates from retail postal savings, thereby enabling the banks to provide financing to companies for working capital and long-term investment needs. The banks typically assume the financial risk of the loans and are responsible for analyzing the SME's operations, determining loan guarantees and deciding on the approval of a loan based on their internal financing criteria. Once banks approve the loan, they formalize the contracts with the SMEs specifying that the transaction has been carried out with the funds made available by CDP, indicating costs and maturities.

⁶ Source: CDP on Eurostat data.

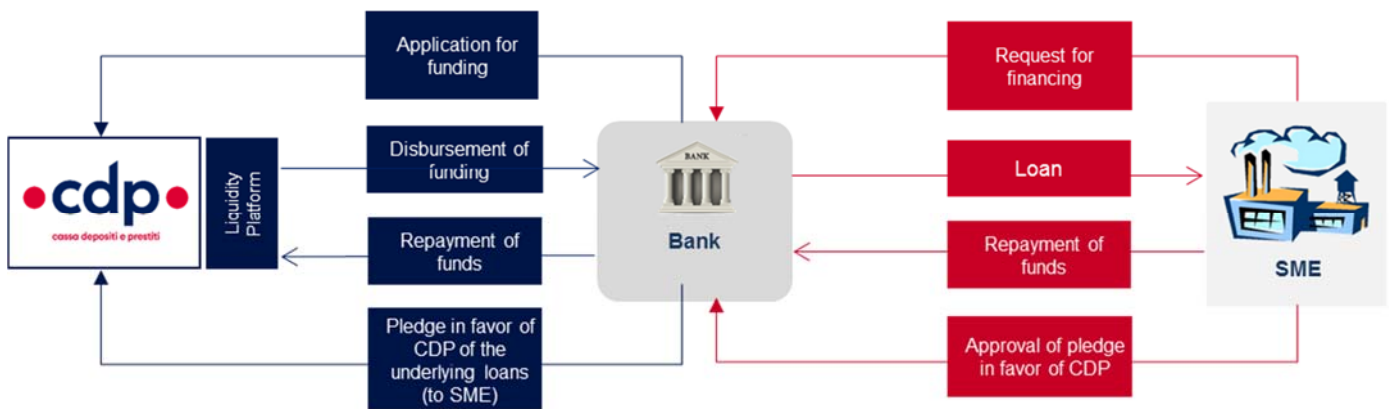
⁷ Referred to in the CDP website as "Support for funding" and "Subsidised loans"

⁸ Referred to in the CDP website as "Instruments to optimise the use of capital"

Moreover, the banks may provide guarantees to CDP with the loan granted to the companies (non-performing loans are excluded) and supported by the CDP funding.

Finally, as regards the Liquidity Platforms, CDP sets the market rates for the cost of financing based on the maturity and financial structure of the loan as well as banks' credit risk. When loans are backed also by public and private guarantees, CDP is able to grant more competitive market rates. The financial conditions are published periodically on the CDP website to ensure maximum transparency in the market.

Liquidity Platforms – typical mechanism



CDP believes that Social Bonds are an effective tool to channel investments to assets that have social objectives and benefits and thereby contribute to the achievement of the UN SDGs, particularly SDG 8 which aims for the promotion of “sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”.

3. Social Bond Framework Overview

CDP has created this Social Bond Framework in accordance with the ICMA Social Bond Principles 2017⁹, and elected to issue Social Bonds to finance loans with particular focus on the following categories:

- Socioeconomic advancement and empowerment
- Access to financing and financial services
- Employment support including through the potential effect of SME financing and microfinancing

For each issuance of Social Bonds, CDP will act in accordance with the following sections of this Framework: (i) Use of Proceeds (ii) Process for Project Evaluation and Selection (iii) Management of Proceeds and (iv) Reporting.

In future, CDP may extend the Eligible Categories of potential eligible loans. Any changes made will be documented in an updated Social Bond Framework and published accordingly on CDP's website at <https://en.cdp.it/investors/>.

3.1 Use of Proceeds

The proceeds derived from the issuance of CDP's Social Bonds will be used to finance or re-finance, in whole or in part, new or existing loans which are not dedicated to any other type of specific funding and have a positive social impact.

For the time being, the proceeds of any CDP Social Bonds will be used to fund loans which fall under the following **Eligible Category**:

- SMEs financing for (i) supporting Italian employment, (ii) Italian economic growth through the support of areas and populations affected by natural disasters or (iii) economically underperforming Italian areas.

In particular, the proceeds will be allocated to enterprises that meet all of the following **Eligibility Criteria**:

- a. that are a Small-Medium Enterprise (SME) as defined below;
- b. that are located in Deprived Areas as defined by the criteria described below;
- c. that are not operating in any business sector listed in the Exclusionary Criteria described below.

In addition, the proceeds of any CDP Social Bonds will be only used to fund loans which are exclusively devoted to working capital and new investments and that will not be used for debt restructuring.

⁹ <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

<p>Small, and Enterprises</p>	<p>CDP considers the following definition and categorization of SMEs which is described below:</p> <p><i>“The category of small, medium, and micro-sized enterprises (SMEs) is made up of autonomous enterprises which employ fewer than 250 persons.”</i></p> <p>The definition of SMEs is in line with that contained in the agreements with the Italian Banking Association (ABI), which contain a description of the mechanism and rules used by CDP to finance SMEs through the banking system.</p>
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<p>Deprived Areas</p>	<p>A Deprived Area consists of either:</p> <ul style="list-style-type: none"> • Italian regions with a level of GDP (gross domestic product at market prices per inhabitant) lower than the national average¹⁰; or • areas within Italy which have been impacted by natural disasters¹¹
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<p>Exclusionary Criteria</p>	<p>CDP will not allocate the proceeds from Social Bonds to SMEs operating in the business sectors listed in Annex A hereto, such as, but not limited to, alcohol, tobacco, gambling, weapons and munitions.</p>
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The proceeds of the CDP inaugural Social Bonds will have clear positive social impacts, supporting local economy and achieving the UN Sustainable Development Goal “*Decent work and economic growth*”¹² (SDG 8), as well as advancing the CDP 2016-2020 Business Plan.

¹⁰ Source: Istat annual edition

¹¹ According to law and applicable regulations

¹² Contributing in particular to the specific target of SDG8 : “Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services”

3.2 Process for Project Evaluation and Selection

A dedicated Social Bond Working Group has been established to create this Social Bond Framework, manage any future updates to the Framework, including expanding the list of Eligible Categories and oversee its implementation.

The Social Bond Working Group is composed of representatives from CDP's:

- Finance department;
- Business department;
- Investor Relations department; and
- Corporate Social Responsibility department.

3.3 Management of Proceeds

The net proceeds and unallocated funds of the bond will be managed within the CDP liquidity portfolio, in a current account held with the Italian State Treasury. The unallocated funds will be invested in accordance with CDP's risk rules in money market activity such as, for example, marketable securities. The CDP Social Bond Working Group will oversee the allocation of the proceeds of any Social Bonds in order to select and evaluate the loans that meet the Eligibility Criteria defined above. In particular, the "Loans Portfolio Management" area of CDP will ensure an accurate allocation of proceeds. It will be in charge of the annual review of SME loans funded through the Liquidity Platforms, identifying loans that meet the Eligibility Criteria and allocating the bond proceeds from the treasury to these loans.

CDP commits on a best effort basis to manage the proceeds of any Social Bonds issued in order to maintain an aggregate amount of eligible loans that is at least equal to the aggregate net proceeds of CDP Social Bonds outstanding at any time.

3.4 Reporting

CDP will produce a report on its Social Bonds which will include:

- allocation reporting, disclosing:
 - the total amount of proceeds allocated to eligible projects/loans;
 - the bond proceeds allocated per region and sector of activity;
 - the balance of unallocated proceeds, if any.
- Output and impact reporting, disclosing:
 - the number of SMEs financed with the CDP Social Bonds;
 - an estimate of the number of employees of the financed SMEs.
- Furthermore, some case studies will also be presented to highlight the qualitative impacts of CDP's lending for SMEs.

CDP may select alternative quantitative or qualitative indicators to report on the impact of loans financed through the proceeds of the Social Bonds, where it believes these to be relevant to the selected eligible loans.

The report will be published within one year from the date of the issuance of Social Bonds and annually thereafter, at least until the full allocation of the proceeds.

CDP's annual Social Bonds reporting will be made available on CDP's website at <https://en.cdp.it/investors/>.

4. External Review

CDP has appointed Vigeo Eiris as Second Party Opinion provider to verify the sustainability credentials of this framework and assess the alignment of this framework with the Social Bond Principles 2017. The Second Party Opinion will be made available on CDP's website at <https://en.cdp.it/investors/>.

On the first anniversary of the Social Bond issuance, the Second Party Opinion provider will review the compliance of eligible loans with the Eligibility Criteria and verify the allocation process. This report will be made public on CDP's website at <https://en.cdp.it/investors/>.

ANNEX A

CDP will not allocate proceeds received from the issuance of Social Bonds to SMEs operating in the following sectors:

- Growing of tobacco
- Mining of non-ferrous metal ores
- Distilling, rectifying and blending of spirits
- Manufacture of other non-distilled fermented beverages
- Manufacture of malt
- Manufacture of tobacco products
- Manufacture of other inorganic basic chemicals - manufacture of uranium and enriched thorium
- Manufacture of explosives
- Manufacture of weapons and ammunition
- Manufacture of machinery for food, beverage and tobacco processing
- Manufacture of other special-purpose machinery n.e.c.
- Manufacture of air and spacecraft and related machinery - manufacture of ballistic missiles
- Manufacture of military fighting vehicles
- Repair of fabricated metal products - weapons
- Repair of fabricated metal products - white weapons
- Agents involved in the sale of food, beverages and tobacco
- Wholesale of grain, unmanufactured tobacco, seeds and animal feeds
- Wholesale of beverages - alcoholic
- Wholesale of tobacco products
- Other retail sale in non-specialised stores (non-food stores)
- Retail sale of beverages in specialised stores
- Retail sale of tobacco products in specialised stores
- Other retail sale of new goods in specialised stores - gift items and smokers' items
- Other retail sale of new goods in specialised stores - weapons
- Defence activities
- Gambling and betting activities
- Other amusement and recreation activities - dance halls, night clubs and similar
- Other amusement and recreation activities - beach resorts
- Other amusement and recreation activities - billiard room and similar
- Other amusement and recreation activities - others
- Activities from other association and organization

CDP has translated this exclusionary list into an internal list of the corresponding ATECO Codes that are equivalent to the European NACE Codes.