Scope Ratings

Cassa Depositi e Prestiti S.p.A.

Rating Report

Rationale and Outlook:

Cassa Depositi e Prestiti S.p.A.'s (CDP) issuer rating of BBB+/Stable is aligned with the rating of the Italian Republic. This reflects the strong degree of integration with the Republic of Italy, based on (i) the majority ownership by the Italian Ministry of Economics and Finance (MEF, 83%), which allows the State to elect most of CDP's board of directors and to set the policy for 'separate account' activities (i.e., the management of funds from state-guaranteed postal savings); (ii) CDP's key role for the country in channeling postal savings to public administration, infrastructures and enterprises; and (iii) the high level of financial interdependence between CDP and its sponsor.

The rating also considers the high likelihood of exceptional support from the Italian MEF, despite the absence of an explicit guarantee on all of CDP's liabilities. This view is based on CDP's strategic importance to the Italian government, the lack of credible alternatives, and the severe impact a default would have on the Italian economy and public finances.

CDP has solid stand-alone fundamentals, underpinned by (i) strong earnings, due to privileged access to stable postal savings, low credit costs and dividends from equity stakes; (ii) sound asset quality, reflecting the material exposure to Italian public entities; and (iii) a stable funding and liquidity profile. However, the supplementary analysis of CDP's financial fundamentals does not lead to an adjustment of the indicative rating derived from the top-down approach.

Figure 1: Scope's rating approach for CDP

Cassa Depositi e Prestiti S.p.A.		
Public Sponsor	**Italian Republic (BBB+/Stable)**	
Step 1: Integration with the Italian Republic (QS1)	Rating Approach	Top-down
Step 2: Top-Down Approach (QS2)	Notching from the Italian Republic	0 notches (BBB+)
Step 3: Supplementary Analysis	Additional Notching	+/- 0 (BBB+)
Final Rating	**BBB+/Stable**	

Source: Scope Ratings

Credit strengths and challenges

Strengths	Challenges
• Key role in the Italian economy • Access to stable postal savings • Strong earnings profile and clean balance sheet	• Credit quality intrinsically linked to that of the public sponsor, the Italian Republic

Ratings & Outlook

Local and foreign currency

Long-term issuer rating

BBB+/Stable

Senior unsecured debt rating

BBB+/Stable

Short-term issuer rating

S-2/Stable

Related research

Scope affirms Cassa Deposit e Prestiti's issuer rating of BBB+ with Stable Outlook, October 2024

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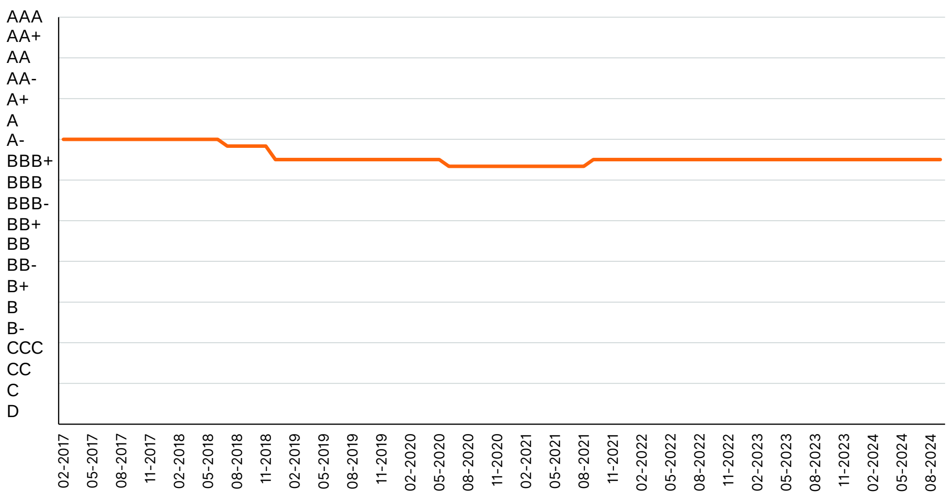
Outlook and rating sensitivities

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12 to 18 months.

Positive rating change drivers	Negative rating change drivers
• Upgrade of the Italian Republic's ratings and/or Outlook	• Downgrade of the Italian Republic's ratings and/or Outlook • 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

Figure 2: Rating history



Notes: Long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.
Source: Scope Ratings.

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Rating approach driven by strong integration with 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 plays a key role in implementation of government policy, making it a government-related entity as defined under Scope's Government Related Entities Rating Methodology.

Top-down approach

Legal status and shareholder structure

By Decree Law 269 of 30 September 2003, CDP became a joint-stock company and assumed the form of a non-bank financial institution registered with the Bank of Italy under Article 106. This change opened 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 reserve requirements, 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 shareholders, but under the list-voting mechanism detailed in CDP's by-laws, they have the right to appoint four out of eleven board members, including the chair. This allows them to block actions requiring a qualified majority.

Purpose and activities

CDP's focus remains on public mission and activities

Over the years, CDP's role has expanded beyond channelling postal savings towards public infrastructure and public administration financing. Under its 2022-24 business plan, CDP is a strategic investor in Italian enterprises, infrastructure projects and public administrations, and as well plays a more technical advisory role. CDP's initiatives to promote sustainable development in the country increasingly incorporate social and environmental considerations alongside traditional economic and financial ones.

Financial interdependencies

High financial interdependencies between CDP and the Italian state

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. As of YE 2023, around 90% of CDP group's loans to customers are related to the government. CDP is also a meaningful investor in Italian sovereign debt. Its securities portfolio, which made up around 20% of total assets at the end of June 2024, consists almost entirely of Italian government bonds.

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.

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[1] See Appendix I, Qualitative Scorecard 1.

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

Residual activities are funded through the wholesale and interbank markets. The group has both a medium/long-term bond issuance programme (DIP, Debt Issuance Programme) and a short-term Commercial Paper Programme. The bonds issued under these two programmes are not explicitly guaranteed and, in theory, rely only on CDP's own creditworthiness.

No explicit guarantee on wholesale liabilities

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.

High likelihood of exceptional support

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]

Government influences strategy and executive management

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.

CDP's ordinary activities are shielded from direct political interference

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 own statutes and the reinforced governance rights enjoyed by the banking foundations are important for managing potential conflicts of interest with the Italian government. However, we consider that the main safeguard 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.

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 support to extend to unguaranteed liabilities if necessary. There are no alternatives to CDP in Italy currently.

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.

Standalone fundamentals

Supplementary analysis does not lead to rating notching adjustment

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.

[3] See Appendix I, Qualitative Scorecard 2.

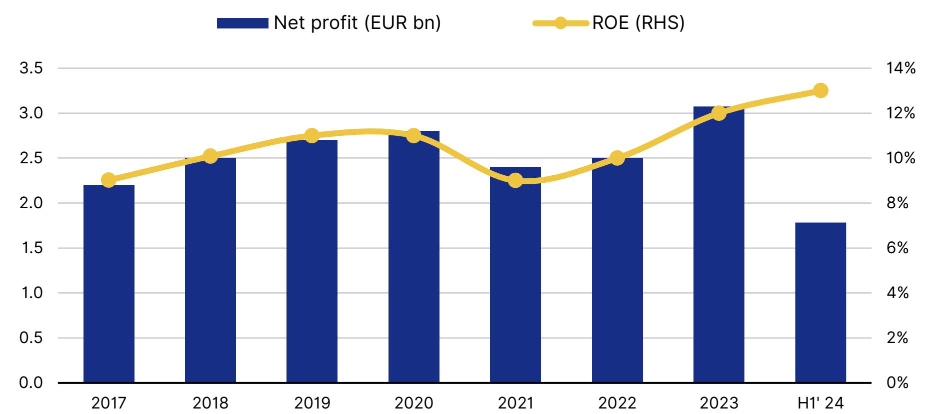
Profitability

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

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

Figure 3: CDP's net profit and ROE development



Source: CDP, Scope Ratings

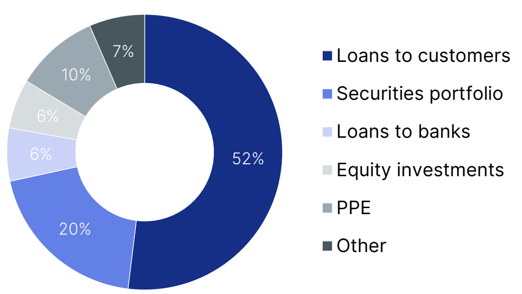
Risk exposures

Low asset risk, with majority reflecting Italian sovereign risk

CDP group's assets are relatively low risk, with more than 60% being linked to the Italian sovereign. Government-related loan exposures accounted for 90% of loans to customers. As of H1 2024, this includes 133bn of cash and cash equivalents held with the Central State Treasury and EUR 73bn in other government loans, including loans to government agencies (essentially Italian regions and other public administrations). The level of non-performing loans is immaterial.

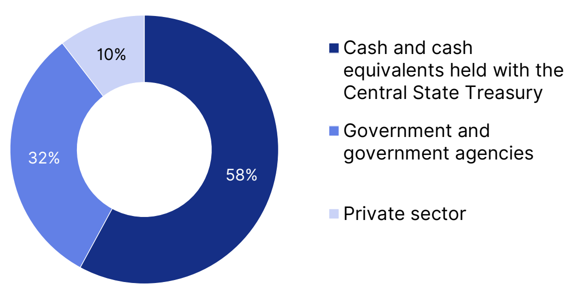
The securities portfolio is largely held at amortised cost and is comprised almost entirely of fixed-rate and inflation-linked government bonds. These bonds form part of the CDP Group's liquidity reserves and are used to hedge the profitability of postal savings against interest rate volatility.

Figure 4: CDP group – consolidated total assets, June 2024



Sources: CDP, Scope Ratings

Figure 5: CDP group – customer loan breakdown, YE 2023

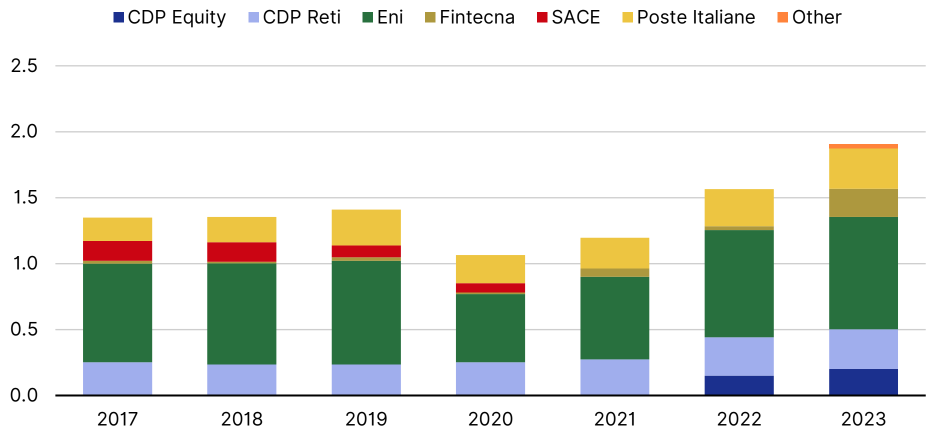


Sources: CDP, Scope Ratings

In addition to providing credit, CDP group holds stakes in companies of national interest. While relatively limited in terms of total assets (EUR 27.1bn as of June 2024[4]), these participations represent an important source of revenue, especially when revenues were under pressure due to the very low-interest rate environment. Against this backdrop, dividend income has proven to be a relatively stable revenue source.

Dividends from equity stakes provide revenue diversification

Figure 6: CDP's sources of dividend income (EUR bn)



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% of total assets net of cash and equivalents.

CDP's main source of funding consists of postal savings in the form of passbooks or bonds; as of H1 2024, they amounted to EUR 287bn, or 81% 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.

Guaranteed postal savings provide funding stability

In the first half of 2024, CDP and Poste Italiane signed a new postal savings agreement for the period 2024-26. While financial terms will not change materially, the agreement entails the expansion of the product and service offer to meet evolving customer needs and increasing investments to improve management services and processes.

Around 20 years ago, CDP started to diversify its funding through wholesale market issuance to finance the ordinary account. As of June 2024, around EUR 19.5bn of bonds were outstanding (including commercial papers).

Increased use of market issuance to diversify funding

Since 2015, CDP has been using the Debt Issuance Programme (DIP) for wholesale funding (for up to EUR 15m). It is also a regular issuer of commercial papers under its EUR 6bn multi-currency programme.

The bonds issued under the DIP programme 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.

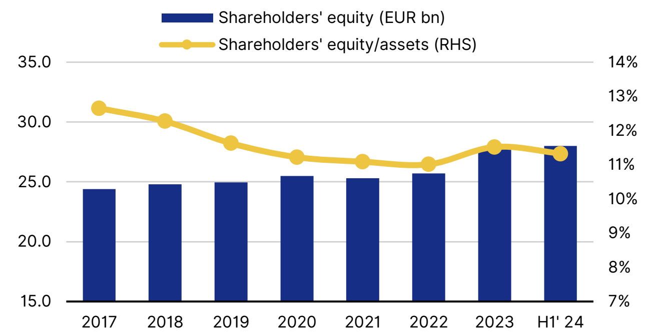
Market liabilities are not guaranteed, but rank pari passu with postal savings

[4] The date was amended on 9 October 2024. In the original publication, the reference date was '31 December 2023'.

In the unlikely event that CDP were to fail to meet its bond obligations, postal savings investors would share the losses with bond investors on a pro-rata basis. In practice, postal savings investors would be made whole by the Italian state, which would then have recourse to CDP, pari passu with other senior creditors. We consider this scenario extremely unlikely given CDP's systemic importance. We expect the government to provide equity injections if needed and as long as there were the financial means to do so.

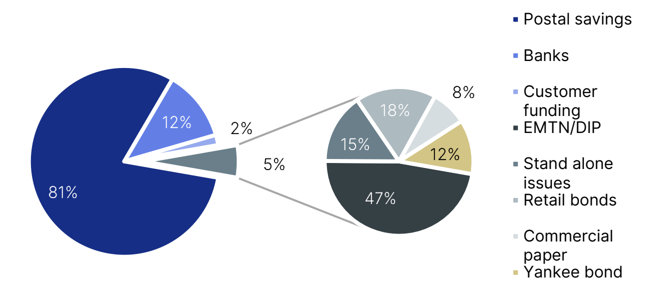
Another source of funding consists of money market transactions on behalf of the Italian treasury (formerly OPTES), i.e. short-term deposits provided by the Italian government. The MEF use these operations to manage the treasury's liquidity account. Given the reduction in system liquidity, the balance fell to below EUR 50m in H1 2024. Lastly, CDP has access to ECB funding: after repaying a sizeable PELTRO line, TLTRO funding as of H1 2024 stood at EUR 1.8bn.

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



Sources: CDP, Scope Ratings
Note: assets net of cash and cash equivalents

Figure 8: CDP's breakdown of funding as of H1 2024



Sources: CDP, Scope Ratings

Environmental, social and governance factors (ESG)

Under the current strategic plan, CDP has embraced a new operating model, in which risk-return considerations are combined with non-financial factors, such as the ultimate benefits for citizens, businesses and communities. The strategy is aligned with national priorities (as detailed in the national recovery and resilience plan) and with the UN's 2030 agenda for sustainable development.

In June 2022, the first ESG plan was approved. This includes, among others, mid-term (2022) and long-term (2030) targets for own emissions, digitalisation (cloud computing) and gender diversity in senior positions. As of June 2024, the group had already met in advance more than 70% of the 2024 targets.

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. Proceeds from social bonds are used to finance projects that have a positive social impact, such as lending to SMEs located in disadvantaged areas, to social housing, and to companies affected by Covid. In 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.

Appendix I. Qualitative Scorecards (QS1 & QS2)

Qualitative Scorecard 1: Integration with Italian Republic and rating approach

Analytical Component	Score	Rationale
Legal status (40%)	Medium (50)	Although CDP is incorporated as a limited liability company, it is under direct public influence, and most of its activities are in the public interest.
Purpose and activities (20%)	High (100)	CDP's mission is to foster Italy's economic development, through the promotion of economic, social and environmental sustainability. Since 2015, it acts as the Italian national promotional institution. Its main goal is to channel postal savings towards public infrastructure as well as Italian government and public administration financing. It is also a 'strategic investor' in Italian enterprises, infrastructure projects and public administration.
Shareholder structure (20%)	High (100)	The majority shareholder is the Ministry of Economy and Finance, with 82.8% ownership. However, the lack of full ownership by the State prevents the automatic transfer of liabilities. Banking foundations and other public or private counterparties can jointly own only a minority share of capital.
Financial interdependencies (20%)	High (100)	CDP receives support from the State in the form of an explicit guarantee on postal savings, which represent the majority of liabilities and fund the 'separate account', including a current account with the Treasury. In addition, CDP plays a critical role in supporting the government's stable funding profile.
Rating Approach		**Top-Down**

Source: Scope Ratings

Qualitative Scorecard 2: Indicative notching relative to Italy

	Assessment	Analytical component	Score	Rationale
Control and regular support	Medium	Strategic and operational decision-making	Medium (50)	CDP's by-laws can be amended by a resolution of the board (extraordinary shareholder meeting), subject to the approval of at least 85% of the share capital; this allows banking foundations to block any measure requiring a qualified majority. The scope of CDP's activities was initially defined at the time of its creation in 1850 and was subsequently modified and extended by laws relating to its reorganization. Strategy is set by management within the limits of by-laws and, operationally, management is independent within the by-law's limits.
		Key personnel, governing & oversight bodies	High (100)	The Ministry of Economy and Finance elects seven[5] out of eleven board members. For the management of postal savings (separate account), the board of directors is assisted by the Director-General of the Treasury, the Accountant General of the State, and three representatives of the regions, provinces and municipalities. A magistrate of the Court of Auditors attends the board meetings. In addition, CDP's separate account activity is supervised by a Parliamentary Supervisory Committee. CDP is also supervised by the Court of Auditors. The Italian government indirectly controls appointments in the CDP group's subsidiaries.
		Evidence of financial support	Medium (50)	Most funding is provided by state guaranteed postal savings. Holdings in strategic national companies are a source of dividend income for CDP. However, no direct transfers or credit lines are provided by the state.
Likelihood of exceptional support	High	Strategic importance	High (100)	The group is of systemic importance for the Italian economy, public administration, and treasury liquidity management.
		Substitution difficulty	High (100)	There is currently no alternative to CDP to achieve the same objectives. Any transfer of activities from CDP's perimeter would likely be to the public sponsor itself.
		Default implications	High (100)	Given the guarantee on postal savings which in turn funds the treasury account, the impact of a default on the sponsor would be material, both financially and in terms of social and reputational impact.
Indicative Notching			**0**	

Source: Scope Ratings

[5] The number of board members appointed by the MEF was amended on 9 October 2024. In the original publication, the number was 'nine'.

Appendix II. Selected financial information – CDP (consolidated group)

	2020	2021	2022	2023	H1 2024
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	48,553	45,013	29,710	28,858	32,231
Total securities	20,639	20,282	17,010	16,132	16,695
of which, derivatives	3,192	1,634	1,965	608	NA
Net loans to customers	356,110	321,673	325,535	323,261	312,369
Other assets	87,103	130,126	105,472	106,730	107,104
Total assets	**512,405**	**517,094**	**477,727**	**474,981**	**468,398**
Liabilities					
Interbank liabilities	62,303	49,726	50,398	49,195	45,330
Senior debt	42,851	44,031	38,856	40,045	43,378
Derivatives	4,962	3,281	1,699	2,260	1,649
Deposits from customers	311,418	321,735	317,011	313,480	308,394
Subordinated debt	532	0	0	0	0
Other liabilities	56,643	62,879	30,396	28,213	25,908
Total liabilities	**478,709**	**481,652**	**438,360**	**433,194**	**424,660**
Ordinary equity	20,436	21,163	23,398	25,693	26,674
Equity hybrids	0	0	0	0	0
Minority interests	13,260	14,279	15,968	16,094	17,065
Total liabilities and equity	**512,405**	**517,094**	**477,727**	**474,981**	**468,398**
Core tier 1/ common equity tier 1 capital	*NA*	*NA*	*NA*	*NA*	*NA*
Income statement summary (EUR m)					
Net interest income	2,876	2,583	2,306	3,245	1,881
Net fee & commission income	-1,004	-950	-760	-788	-493
Net trading income	533	578	128	-66	-26
Other income	15,145	18,472	18,181	19,612	10,479
Operating income	**17,549**	**20,682**	**19,855**	**22,003**	**11,840**
Operating expenses	12,483	14,371	15,392	16,610	7,399
Pre-provision income	**5,066**	**6,311**	**4,463**	**5,394**	**4,442**
Credit and other financial impairments	254	41	-36	-41	2
Other impairments	2,119	-1,574	-3,628	-1,204	NA
Non-recurring income	0	0	0	0	0
Non-recurring expense	0	0	0	0	0
Pre-tax profit	**2,693**	**7,845**	**8,126**	**6,639**	**4,429**
Income from discontinued operations	-38	-1,170	-1	0	0
Income tax expense	1,490	1,351	1,297	1,612	1,132
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	1,533	2,344	1,385	1,720	1,098
Net profit attributable to parent	**-369**	**2,980**	**5,443**	**3,307**	**2,199**

Sources: CDP, Scope Ratings

Appendix III. Selected financial ratios – CDP (consolidated group)

	2020	2021	2022	2023	H1 2024
Funding and liquidity					
Net loans/ deposits (%)	114%	100%	103%	103%	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 (%)	69.5%	62.2%	68.1%	68.1%	66.7%
Problem loans/ gross customer loans (%)	0.1%	0.2%	0.2%	0.1%	NA
Loan loss reserves/ problem loans (%)	277.2%	176.5%	170.8%	288.7%	NA
Net loan growth (%)	14.1%	-9.7%	1.2%	-0.7%	-6.7%
Problem loans/ tangible equity & reserves (%)	2.0%	2.6%	2.4%	1.2%	NA
Asset growth (%)	14.2%	0.9%	-7.6%	-0.6%	-2.8%
Earnings and profitability					
Net interest margin (%)	0.7%	0.6%	0.6%	0.9%	1.0%
Net interest income/ average RWAs (%)	NA	NA	NA	NA	NA
Net interest income/ operating income (%)	16.4%	12.5%	11.6%	14.7%	15.9%
Net fees & commissions/ operating income (%)	-5.7%	-4.6%	-3.8%	-3.6%	-4.2%
Cost/ income ratio (%)	71.1%	69.5%	77.5%	75.5%	62.5%
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 (%)	5.0%	0.6%	-0.8%	-0.8%	0.0%
Loan loss provision/ average gross loans (%)	0.1%	0.0%	0.0%	0.0%	NA
Pre-tax profit/ average RWAs (%)	NA	NA	NA	NA	NA
Return on average assets (%)	0.2%	1.0%	1.4%	1.1%	1.4%
Return on average RWAs (%)	NA	NA	NA	NA	NA
Return on average equity (%)	3.3%	15.4%	18.3%	12.4%	15.4%

Sources: CDP, Scope Ratings

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Related research

Scope affirms Italy's BBB+/Stable long-term credit ratings, 12 July 2024

Applied methodology

Government Related Entities Rating Methodology, September 2024

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