



REVIEW¹

OF THE MANAGEMENT OF CASSA DEPOSITI E PRESTITI'S SUSTAINABILITY BOND 2018

September 2019

SCOPE

In 2018, Vigeo Eiris was commissioned to provide an independent opinion (hereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Green, Social and Sustainability Bond Framework (the “Framework”) created by Cassa depositi e prestiti (“CDP” or the “Issuer”) to govern the issuance of a “Sustainability Bond”² (the “Bond”). This Framework was reviewed by Vigeo Eiris in a SPO published in September 17th 2018³ and CDP issued its Sustainability Bond by September 27th 2018 with the official aim to finance and refinance Eligible Loans contributing to support the construction and modernisation of Italy’s water infrastructures⁴.

As of today, Vigeo Eiris has been commissioned by CDP to provide an independent opinion (or “Review”) on the management of its 2018 Sustainability Bond and on its first draft Annual Report prepared for this Bond.

Our opinion is established according to our Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the International Capital Market Association’s Green Bond Principles (“GBP”) and Social Bond Principles (“SBP”) voluntary guidelines edited in June 2018 (together referred to as the “Sustainability Bond Guidelines” or “SBG”).

Our opinion is built on the review of the coherence between the Issuer initial commitments and the Sustainability Bond Principles with the following elements:

1. Bond processes actually implemented
2. Allocation process and results obtained from the use of Bond proceeds financing Eligible Loans
3. Reporting on the social and environmental benefits of the Eligible Loans, at Loans and aggregated at Bond levels

We carried out our due diligence assessment from August 9th to September 25th, 2019.

Vigeo Eiris conducted a review of the coherence between reported loans/projects with eligibility criteria defined in the Issuer’s Framework. Our sources of information are documents and answers provided by the Issuer. We consider that we were provided with all the appropriate documents we solicited. We consider that the information made available enables us to establish our opinion with a moderate⁵ level of assurance on its completeness, precision and reliability. The data and information communicated in the report has not been certified by an external auditor.

VIGEO EIRIS’ OPINION

Vigeo Eiris is of the opinion that the Sustainability Bond issued in 2018 by CDP remains aligned with the Green Bond Principles and the Social Bond Principles voluntary guidelines 2018.

- ▶ **We express a reasonable assurance⁵ on the Issuer’s capacity to use the Bond proceeds in line with its initial commitment to finance Eligible Loans defined in its Framework (2018).** According to the information provided by the Issuer (i.e. the list of projects financed by this Bond and answers to our questions), 100% of the net proceeds of the issuance appear to be used to finance and refinance Eligible Loans for 1 963 projects contributing to financing the construction and modernisation of Italy’s water infrastructures and to protection and safeguarding of the territory. We consider that the provided list of financed Loans appears to correspond to one Eligible Category of projects as initially defined in the Issuer’s Framework, namely: “Infrastructure and Development of Cities”, in particular its subcategory “Sustainable water and wastewater management”, in line with the Issuer’s initial commitments.

¹ This Review is to be considered as the “Consultant review” described by the International Capital Market Association (www.icmagroup.org).

² The “Sustainability Bond” is to be considered as the bond to be potentially issued, subject to the discretion of the Issuer. The name “Sustainability Bond” has been decided by the Issuer: it does not imply any opinion from Vigeo Eiris.

³ The Second Party Opinion provided by Vigeo Eiris can be at https://www.cdp.it/resources/cms/documents/Vigeo_Second_Party_Opinion_18.pdf.

⁴ https://www.cdp.it/sitointernet/it/sustainability_bond_18.page

⁵ Definition of Vigeo Eiris’ scales of assessment (as detailed in the Methodology section of this document):

Level of Performance evaluation: Advanced, Good, Limited, Weak.

Level of Assurance: Reasonable, Moderate, Weak.

- ▶ **We express a reasonable⁵ assurance on the Issuer's capacity to implement the process for projects evaluation and selection, in line with its initial commitments.** The Issuer declares that all decisions have been made according to the initial criteria and process, with all decisions made being documented in emails. We have received a detailed list of financed Eligible Loans/projects which allow to review that the selection of projects appears to be in line with the initial commitments. The relevance of the system reportedly implemented by the Issuer to identify and manage the ESG risks associated with the Eligible Loans/projects has not been included in the scope of this review as no initial commitment was made on this matter before the issuance. *Areas for improvement include to (i) document all the decisions made to select and exclude projects in minutes of meeting, (ii) to have an external verifier to review the new system implemented to identify & manage the material ESG risks associated to Eligible Loans/projects.*
- ▶ **We express a reasonable assurance⁵ on the Issuer's capacity to manage the Bond's proceeds in line with its initial commitments.** The Issuer declares that all the management of proceeds has been made according to its initial criteria and process, with internal controls, and provided a detailed list of financed Eligible Loans. The provided list of financed Eligible Loans/projects provided by the Issuer has been reviewed, and appears to be aligned with its initial commitment. The allocation process, the tracking method and the detailed list of financed Eligible Loans/projects do not appear to be certified by a financial auditor, which constitutes an area for improvement to align with market practices.
- ▶ **Regarding the reporting**
 - **We express a reasonable⁵ assurance on the Issuer's capacity to report on the allocation of proceeds, in line with its initial commitments.**
 - **We express a moderate⁵ assurance on the Issuer's capacity to report on environmental and social benefits of the financed Eligible Loans.** We value the effort made by CDP to define and report on indicators covering almost 2000 Loans/projects financed under this Sustainability Bond 2018 net proceeds, and we recognize the difficulty to provide quantitative indicators on social outcomes and impacts when dealing such diversity of projects. The annual reporting on environmental and social results has not been certified by an external auditor. Some benefits and impacts assessed in the annual report appear to be partially relevant or transparent (for instance, improvement in efficiency is to be specified and explained with clear context and baselines of benchmark). *Areas for improvement include (i) having an external auditor verifying the reported environmental and social data and calculations; (ii) to measure the social benefits of the projects for the local population in particular in reference to UN SDG 6; (iii) to report on any material development or ESG controversy related to the financed projects.*

Summary: level of assurance on the Issuer's capacity to				
Use the proceeds to finance Eligible Loans	Allocation of the proceeds	Management of proceeds	Report on the allocation of proceeds	Report on the environmental and social benefits
Reasonable	Reasonable	Reasonable	Reasonable	Moderate

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DISCLAIMER

Transparency on the relation between Vigeo Eiris and the issuer: Vigeo has provided three SPOs and one Review opinion to CDP between 2017 and 2019. No established relationship (financial or other) exists between Vigeo Eiris and CDP.

This opinion aims to explain for investors and stakeholders why the Green & Social Bond is considered as sustainable, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the Loans financed by the Bond. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris focuses neither on the financial performance of the Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

Restriction on distribution and use of this opinion: the opinion is provided by Vigeo Eiris to the Issuer and can only be used by the Issuer. The distribution and publication of the Review are at the discretion of the Issuer, submitted to Vigeo Eiris approval.

DETAILED OPINION

Use of Proceeds

We express a reasonable assurance⁵ on the Issuer's capacity to use the Bond proceeds to finance Eligible Loans as defined in its Framework (2018), in line with its initial commitments.

According to the information provided by the Issuer to Vigeo Eiris (such as: a detailed list of Eligible Loans/projects financed by the Bond and answers to our questions), 100% of the net proceeds of the issuance have been used to finance and refinance loans for a total of 1 963 projects in 1 212 public entities in Italy.

In particular, based on the provided information, the Bond proceeds have been reportedly used to finance three types of interventions:

- Water network construction, completion, maintenance and upgrade (70% of net proceeds);
- Operations of prevention of hydrogeological instability, through the maintenance of canals, and watercourses to prevent the deterioration of the entire water system (17% of net proceeds);
- Intervention on sewer networks, wastewater management, meteoric water management, maintenance and restructuring of sewers and purification plants (13% of net proceeds).

The reported financed Eligible Loans/projects appear to be in line with one of the Eligible Category of projects defined in the Issuer's Framework (2018), namely: "Infrastructure and Development of Cities", in particular to its subcategory "Sustainable water and wastewater management".

The validity and exhaustivity of the list of financed Eligible Loans/projects was not planned to be certified by an external audit in the initial framework. This constitutes a possible area for improvement to align with market practices.

We consider that the selected Eligible Loans are likely to contribute to one United Nations' Sustainable Development Goal, namely Goal 6. Clean water and sanitation.



UN SDG 6 consists in ensuring availability and sustainable management of water and sanitation for all. By financing and refinancing the selected Eligible Loans, the Issuer is likely to contribute to UN SDG 6, and more precisely to the following 2030 targets:

- 6.1 Achieving universal and equitable access to safe and affordable drinking water for all.
- 6.3 Improving water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.

Process for Project Evaluation and Selection

We express a reasonable⁵ assurance on the Issuer's capacity to comply with the process for projects evaluation and selection defined in its initial commitments.

The evaluation and selection process of the Eligible Loans appears to be efficiently implemented:

- The process applied appear to be based on relevant internal expertise including an ad hoc Green, Social and Sustainability Bond Working Group composed by representatives from several functions across the organization.
- CDP reports that the Green, Social and Sustainability Bond Working Group (the "Group") has met regularly in 2018/2019 to oversee the Sustainability Bond Framework implementation and evolution and to identify Eligible Loans to be financed/refinanced. CDP also reports that the Group has tracked its decisions through email exchanges among its members where meetings conclusions and decisions have been summarised.
- According to our general assessment of the portfolio of financed Eligible Loans/projects provided by the Issuer, the selected Eligible Loans/Projects appear to have been selected among new and existing loans issued to Italian public entities, in line with the commitments defined in the Framework 2018.

The Issuer declares that the decisions taken by the Group for the selection or exclusion of potentially eligible loans are formalised via emails.

The identification and management of environmental and social risks associated with the Eligible Loans was considered weak in Vigeo Eiris' SPO covering the CDP's 2018 Sustainability Bond issuance.

Vigeo Eiris recognise as positive that Cassa Depositi e Prestiti has committed in its 2019-2021 business plan to further integrate ESG (Environmental, Social and Governance) principles in the criteria for evaluating investments, in order to minimize non-financial risks and maximize the positive impacts on the community and the territory.

- CDP reports to Vigeo Eiris that in the current loan attribution process, CDP verifies compliance with Italian legislation on the maximum level of indebtedness of public entities and requires documentation that certifies that the areas where the works are to be carried out are not subject to landscape and cultural conservation (Italian Legislative Decree 42/2004) or, in the absence of certification, an authorization by competent bodies to carry out the related works.
- CDP also reports that it verifies compliance with the provisions of the legislation on "anti-money laundering" at loan approval and at disbursement and that, when the loan is disbursed, it verifies compliance between the purpose of the loan and the projects that have been carried out.
- CDP has adopted a complaints procedure⁶ and reports that it has adopted a policy that specifies responsibilities and safeguards for the management of complaints submitted by customers in order to remedy the reported situations and avoid the recurrence of conditions that can create dissatisfaction and loss of trust in the organisation or reputational damage.

An area for improvement includes to have an external verifier to review the new system implemented to identify & manage the material ESG risks associated to Eligible Loans/projects.

Management of Proceeds

We provide an overall reasonable assurance on the Issuer's capacity to manage the Bond's proceeds, in line with its initial commitments.

The Issuer declares that all the management of proceeds has been made according to its initial criteria and process, with internal controls, and provided a detailed list of financed Eligible Loans. We have reviewed the provided list of financed Eligible Loans/projects provided by the Issuer, which appear to be aligned with its initial commitment.

- CDP reports that according to its tracking systems, as of May 2019 all 100% of the net proceeds of its Sustainability Bond 2018 has been already allocated to Eligible Loans.
- CDP reiterates its engagement to manage unallocated funds of the Bond within its liquidity portfolio, in a current account held with the Italian State Treasury and invested exclusively in accordance with CDP's risk rules in money market activity.
- CDP reports that the allocation of proceeds has been verified internally under the supervision of the Green, Social and Sustainability Bond Working Group and that the Loan Portfolio Management Function has carried out a review of the loans and operations funded, identifying loans that met the eligibility criteria and allocating the bond proceeds from the treasury to these loans.
- No cases of loan divestment - early loan repayments, loans maturing before the maturity of the bond, beneficiaries failing to respect Eligibility criteria requiring reallocation of proceeds - have been brought to Vigeo Eiris' attention.

The allocation process, the tracking method and the detailed list of financed Eligible Loans/projects were not planned to be certified by an external financial auditor in the initial framework. This constitutes a possible area for improvement to align with market practices.

Monitoring and Reporting

We express an overall moderate assurance on the Issuer's capacity to report on the fund allocation and the social/environmental benefits and impacts of the Loans.

First, we express a reasonable assurance on the Issuer's capacity to report on fund allocation, in line with its initial commitments. The indicators used in the annual regarding the fund allocation are complete and relevant, at both Loans and Bonds levels, including

⁶ https://www.cdp.it/sitointernet/it/procedura_di_reclamo.page.

- the total amount of proceeds allocated to the Eligible Category;
- the share of bond proceeds allocated per region (in %), per type of intervention, typology of public entity and size of municipality;
- the average amount of funds disbursed per project;
- the median amount of funds disbursed per capita (€/inhabitant of the area covered by the project);
- the balance of unallocated proceeds (which is zero).
- the share of loan financing versus refinancing

An area for improvement would be to report on the share of co-financing (when other sources of funds are involved), at project level and consolidated at portfolio level.

We express a moderate assurance on the Issuer's capacity to report on environmental and social benefits and impacts of the financed Eligible Loans. The indicators used in the annual report regarding the social and environmental benefits of the projects (outputs, outcomes and impacts) are partially exhaustive and relevant.

The reporting on the social and environmental benefits and impacts of the Loans appear to be in line with the Issuer's initial commitments, since the reporting criteria included in the Framework were presented as indicative examples. **We value the effort made by CDP to define and report on indicators covering almost 2000 Loans/projects financed under this Sustainability Bond 2018 net proceeds, and we recognize the difficulty to provide quantitative indicators on social outcomes and impacts when dealing such diversity of projects.**

- The Issuer has clearly disclosed several relevant indicators and results, aggregated at Bond level:
 - the number of projects financed, by type of intervention (745 on water networks, 109 on prevention of hydrogeological instability and 1109 on sewer networks and wastewater management);
 - the number of municipalities receiving Loans (1 212), presented by range of size of their population;
 - the improvement of the efficiency of the national water network in terms of reduction of water losses in absolute terms (reduction of water dispersion of 48 million m³ between 2014 and 2019) and in relative terms (reduction of water dispersion of 1.4%). This indicator allows to report on the main typology of interventions financed by the Sustainability Bond 2018 (i.e. water network construction, completion, maintenance and upgrade), which represents 70% of net proceeds use;
 - the estimated number of jobs created or maintained (10 314 in total) per municipality benefiting from the Loans, presented by range of population size of the municipality.
 - In addition, a case study provides a focus on some of the financed projects and benefits.
- The calculation methodologies and assumptions used to report on the estimated number of jobs created and on the reduction of water losses have been clearly defined by the Issuer in a separate document and will be made publicly available by the Issuer in its website, to be specified in the annual reporting.

The annual reporting on environmental and social results has not been certified by any external auditor. Moreover, some benefits and impacts assessed in the annual report appear to be partially relevant or exhaustive (such as: improvement in efficiency to be specified and explained with clear context and baselines of benchmark).

Areas for improvement include (i) having an external auditor verifying the reported environmental and social data and calculations in order to align with market practices; (ii) to measure the social benefits of the projects for the local population in particular in reference to UN SDG 6, (iii) to report on any material development or ESG controversy related to the financed projects.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the Issuance through the objectives, management and reporting of the assets/projects to be (re)financed.

Vigeo Eiris' methodology for the definition and assessment of the ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. The evaluation framework has been customized regarding material issues, based on our relevant sector ESG assessment frameworks and on specific issues considering the Issuer's business activity.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, including three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council. All collaborators are signatories of Vigeo Eiris' Code of Ethics.

The management of the Bond and the annual reporting have been evaluated by Vigeo Eiris according to the Social Bond Principles & Green Bond Principles 2018, and to our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Eligible Loans review

The analysis of the conformance with the Issuer's initial commitments as defined in the Framework created to govern the Sustainability Bond issuance (September 2018) covers both the eligibility criteria (based on the definition of Eligible Loans categories, use of proceeds requirements), and the selection criteria (based on the ESG commitments).

Our review covers both the implementation of the initial commitments made by the Issuer in its Framework 2018 and in the SPO, and the annual reporting made one year after the issuance by CDP of its Sustainability Bond 2018:

- Fund allocation, reporting on the use of proceeds, considered as a primary component and mandatory to achieve reasonable level of assurance at Loan level; and
- Social and environmental benefits, reporting on outputs, outcomes and impact indicators, considered as a primary component and mandatory to achieve reasonable level of assurance at Loan level.

Bond review

The analysis of the implementation of the Bond processes and commitments covers:

- The evaluation and selection process, i.e. assessment of the coherence and efficiency of the implemented process, and of the exhaustiveness of the ESG issues covered; and
- The allocation of proceeds process, based on the rules for management of proceeds defined prior to the issuance of the Bond.

The analysis of the existence and completeness of the reporting, at Bond level, according to the Issuer's initial commitments, also covers two components:

- Fund allocation, reporting on the aggregated use of proceeds, considered as a primary component and mandatory to achieve a reasonable level of assurance at Bond level;
- Social and environmental benefits, reporting on aggregated output and impact indicators, considered as a primary component and mandatory to achieve a reasonable level of assurance at Bond level;

Reporting

The reporting indicators in place for the allocation of proceeds and for the sustainable benefits are evaluated according to the quality of the indicators (exhaustiveness and relevance), and considering the reporting nature and management (format, visibility, data collection, etc.)

The evaluation of the Loans results is conducted at Bond level, including aggregated reporting, based on both social and environmental benefits, considered as essential to achieve a good performance.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.

Level of assurance	
Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9 001 standard. Vigeo Eiris is an approved Verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Rabat and Santiago.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: www.vigeo-eiris.com