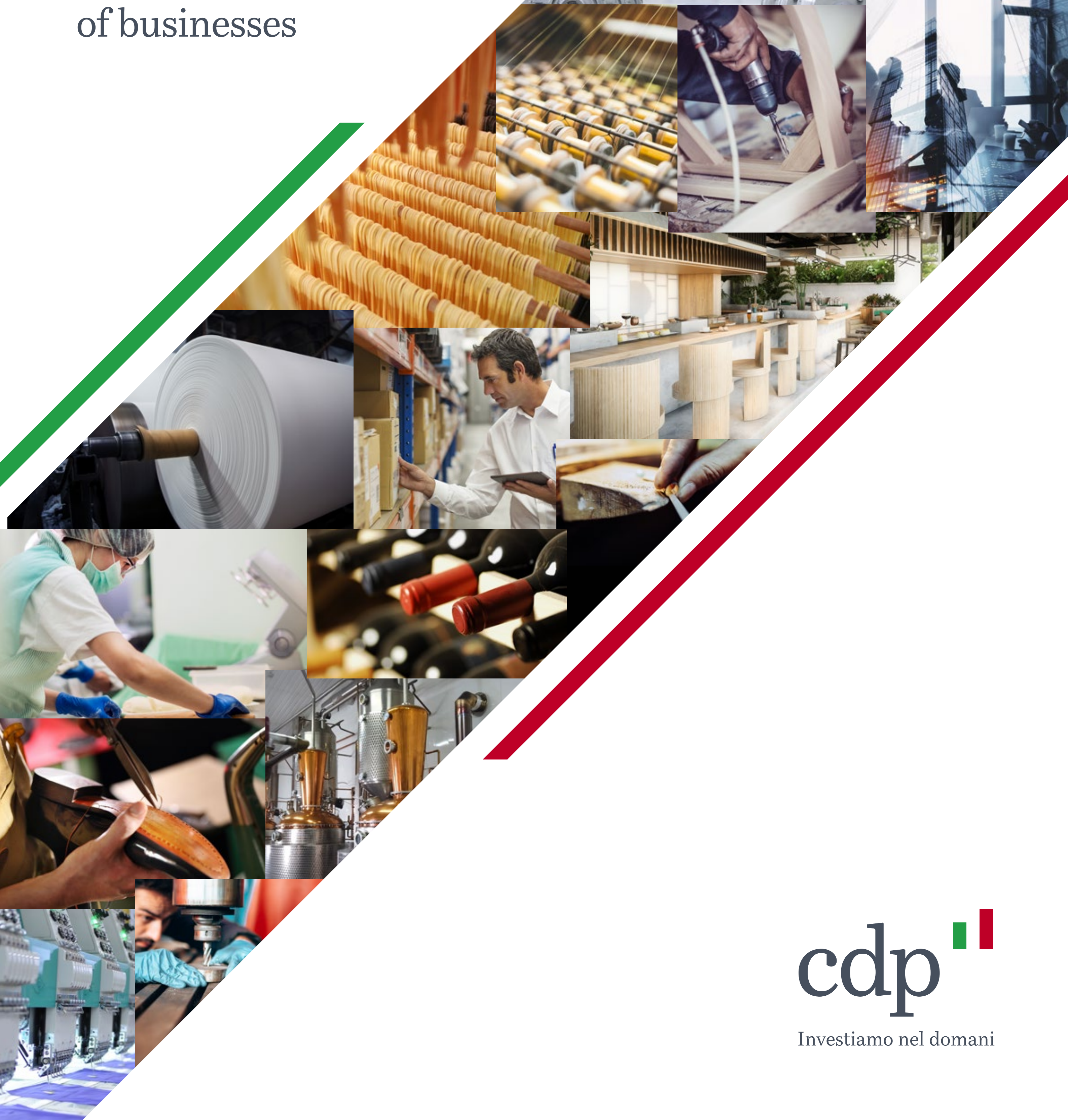
Covid-19
Social Response Bond
Report 2021

A concrete commitment for the restart of businesses



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CDP Covid-19 Social Response Bond Report

- **On April 2020, CDP issued its "Covid-19 Social Response Bond" in a dual-tranche format under the "CDP Green, Social and Sustainability Bond Framework"**
- **The proceeds of the issue were allocated to support Italian enterprises harshly hit by the Coronavirus emergency**
- **The funds raised were entirely allocated to more than 6.200 firms**
- **The 38% of the proceeds have been destined to Micro Italian enterprises**
- **The CDP Covid-19 Social Response Bond's contribution to sustainability and its alignment to the *Social Bond Principles* have been confirmed by ISS ESG, as a Second Party Opinion Provider**

The purpose of this document is to provide full transparency regarding the allocation of funds within one year after the issuance, as specified in the "CDP *Green, Social and Sustainability Bond Framework*[1]" (the "Framework").

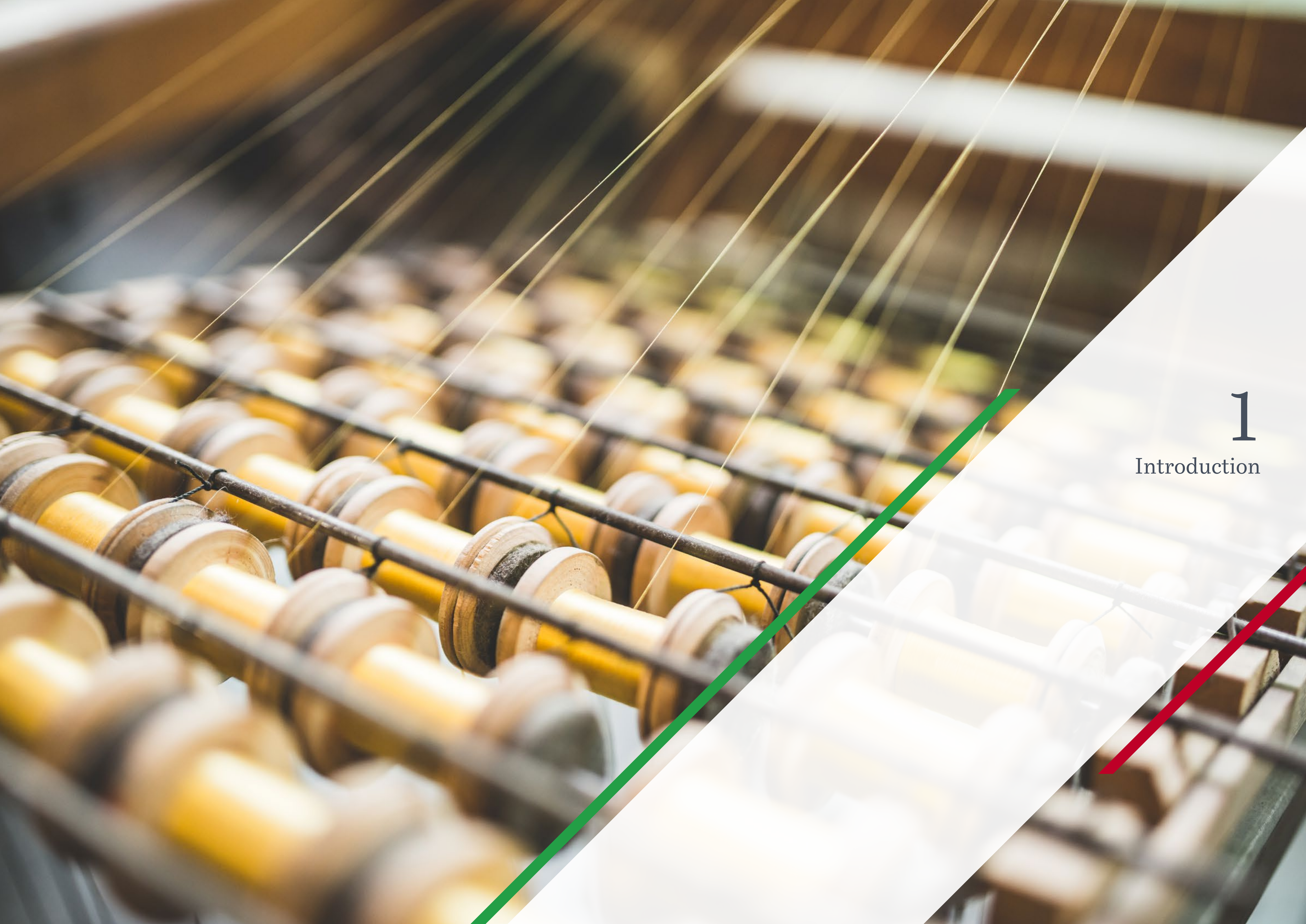
ISS ESG Corporate Solutions ("ICS") has confirmed that as of April 27 2021, the Covid-19 Social Response Bond Report is aligned with the ICMA's Social Bond Principles and ICMA's Harmonised Framework for Impact Reporting.

6.289
Firms

38%
Micro Firms

130+
Investors

1 Available on the CDP website page at: https://www.cdp.it/sitointernet/en/investitori.page



1
Introduction

On April 2020, Cassa Depositi e Prestiti S.p.A. ("CDP") issued the **Covid-19 Social Response Bond** from which the proceeds were used to support **Italian companies** harshly hit by the Coronavirus emergency through the **financing** of both **short-term initiatives** and, in line with CDP's mission, medium/long-term investments aimed to foster the subsequent **economic recovery**.

This issuance represents the **fourth Social Bond** issued by CDP, which follows the inaugural Social issuance on 2017, the Sustainability Bond on 2018, the second Social Bond on March 2019 and the first Social Housing Bond on February 2020.

This initiative took place in an unprecedented liquidity crisis. According to Istat[2], on March and April 2020, 45% of Italian businesses were suspended. In addition, more than 40% of companies had their turnover decreased by more than 50% compared to the same months of 2019.
This context led many companies to not have enough liquidity in the short term.
In fact, during the first wave of the pandemic, more than half of Italian companies declared to not have sufficient level of liquidity to meet the expenses foreseen for the rest of the year.

After the first wave, the protraction of the pandemic led the Italian economy to suffer throughout 2020 and first months of 2021. Overall, in 2020, **losses in gross output** of Italian firms were worth **over Euro 300 billion** compared to the previous year[3].

Moreover, while the lack of liquidity determined an increase in firms' debt, even more severe consequences affected private investments. In fact, throughout 2020, many businesses decided to postpone, suspend or cancel investment plans. These decisions led to **a 16% decrease** in private **investment**, equivalent to **a loss of over Euro 46 billion**[4].

With the issuance, CDP wanted to allocate the Covid-19 Social Response Bond proceeds to finance companies with instruments falling within one of the four "*Eligible Categories*" defined within the CDP Framework, ***"SMEs and Corporate Financing"***.
This category contributes to the achievement of one of the Sustainable Development Goals set by the United Nations ("UN SDGS"), namely number **8. "Decent Work and Economic Growth"** which has the objective of ***"promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all"***.

CDP Covid-19 Social Response Bond – Main Characteristics

Issuer	Cassa Depositi e Prestiti S.p.A.
Nominal Amount	€1 billion structured in a dual tranche of €500 million each
Issue Date	15 April 2020
Maturity Date *Tranche 1*	20 April 2023 (3Y)
Maturity Date *Tranche 2*	20 April 2027 (7Y)
Coupon - *Tranche 1*	1,50%, Annual Fixed Rate
Coupon - *Tranche 2*	2,00%, Annual Fixed Rate

The issue was presented to the market in a dual-tranche format with maturities 3 and 7 years and it was subscribed by more than 130 institutional investors

2 Istat, "Situazione e prospettive delle imprese nell'emergenza sanitaria covid-19", June 15, 2020.
3 Oxford Economics estimation, gross of economic support measures.
4 European Commission, AMECO, current prices.

Eligibility Criteria

In accordance with the criteria established within the Framework and in compliance with the *Social Bond Principles* ("**SBPs**") issued by the *International Capital Market Association* ("**ICMA**"), the proceeds from the CDP's Covid-19 Social Response Bond were used to finance, through direct lending or indirect via the Italian banking system, Micro or Small and Medium companies (**SMEs**[5]) but also Italian Mid-large corporates with the aim to support their **liquidity needs** as a result of the coronavirus emergency and foster the subsequent economic recovery through medium to long-term investments.

External Review

ISS ESG has released an External Review on the CDP Covid-19 Social Response Bond Report in which it confirms the positive contribution to the sustainable development and its alignment with the SBPs.
In particular, as of April 27 2021, ISS ESG's Opinion is as follows:

1. **Alignment with framework commitment, in line with the SBPs**: ISS ESG finds that the Covid-19 Social Response Bond Report 2021 respects the commitments set forward in the Framework by CDP and remains aligned to the Social Bond Principles. All key requirements defined by the SBPs have been disclosed in the framework and have then been respected in the *Covid-19 Social Response Social Housing Bond Report* 2021;

2. **Alignment with best market practices, defined in the HFIR**: ISS ESG finds that the Covid-19 Social Response Bond Report 2021 is in line with ICMA's Harmonised Framework for Impact Reporting. All compulsory and key optional requirements have been fulfilled;

3. **Soundness of KPIs reported**: ISS ESG finds that the KPIs used in the Covid-19 Social Response Bond Report 2021 of CDP align with good market practices and with the SBPs. The allocation reporting appropriately displays the allocation of the total proceeds of the bond. The indicators chosen for the impact reporting are material and in line with suggested market guideline metrics, and information regarding sourcing and methodology are properly displayed.

The Opinion issued by ISS ESG on the Report is available on the CDP website at the following link:
https://www.cdp.it/sitointernet/en/investitori.page

ISS ESG

5 For SMEs is meant enterprises with fewer than 250 employees (full-time equivalents), taking into account this size parameter according to the qualitative criteria set out in Recommendation 2003/361/EC.

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Funds Allocation

During the first year of life of the Covid-19 Social *Response Bond*, CDP achieved the **full allocation** of proceeds. For the purposes of Reporting, only loans granted to companies after the Bond issuance were considered.

The evaluation and selection of eligible loans was supervised by a working group specifically set up for the issue, composed by members of the following CDP's departments: Finance, Business, Sustainability and Investor Relations.

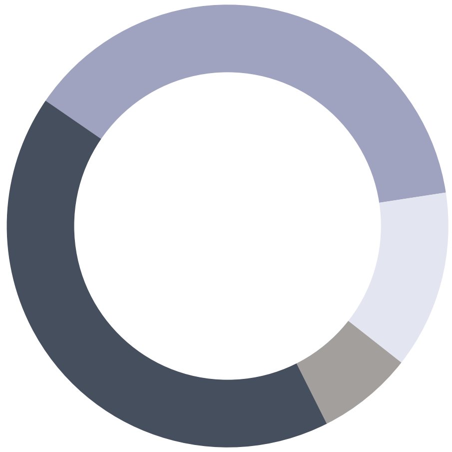
Below some data on the portfolio underlying the two tranches issued:

Number of Italian companies financed	**6.289**
Average amount of loans granted	circa € **157.540**
Average maturity of loans granted	circa **73** months

The data shows that at the overall portfolio level, the loans were mainly allocated (**58%**) to **Micro, Small and Medium enterprises** and the remaining (**42%**) to **Large firms**.
Such a breakdown derives from the composition of the Italian economy.
In fact, approximately 77% of the Italian workforce is employed in Micro-Small-Medium enterprises, while 23% is employed in large firms[6].

In more detail, among the disbursements made indirectly[7] through the Italian banking system, which amount to Euro 500 million, the companies that benefited most were **Micro enterprises** (about **76%**), followed by Small (21%) and Medium (about 3%). Only 0.4% of the funds were allocated to companies with more than 250 employees.

Distribution by enterprise dimensions (%)



42 %	38 %	13 %	7 %
Large Coroporates	Micro Firms	Small Firms	Medium Firms

This composition derives from two elements. First, the negative relation between firm size and impact of the crisis. Second, the necessity of financing from banking system. According to Istat[8], 42.6% of Micro and 43.6% of Small enterprises received a banking loan during the first *lockdown*, while in the same period just 23.3% of large firms acted in same manner.

As part of the direct lending, the funds were provided for about 84% to Large companies and the remaining 16% to Medium and Small enterprises.

In terms of the **distribution by sector of activity, 59%** of the proceeds were allocated to the **manufacturing sector**.

6 Istat, "Imprese e Addetti", 2018. Database does not consider NACE Rev2 A.
7 CDP provides liquidity to Italian SMEs on the basis of specific agreements signed with the Italian Banking Association (ABI), which facilitate access to credit for SMEs through the banking system and guarantee uniform and transparent financing conditions.
8 Istat, "Situazione e prospettive delle imprese nell'emergenza sanitaria covid-19", June 15, 2020.

Distribuzione by sector of activity (%)

58,0 %	30,4 %	5,6 %	3,5 %	1,5 %	1,0 %
Manufacturing Activities	Wholesale & Retail Sector	Accommodation & Catering Services	Rental, Travel Agencies and Business Support Services	Transportation & Storage	Other

This aspect well reflects the **leading role** that the manufacturing sector plays in the Italian economy, occupying the first place both in terms of employment and production. For every euro of added value produced in Italy, 20 cents come from the manufacturing industry[9].

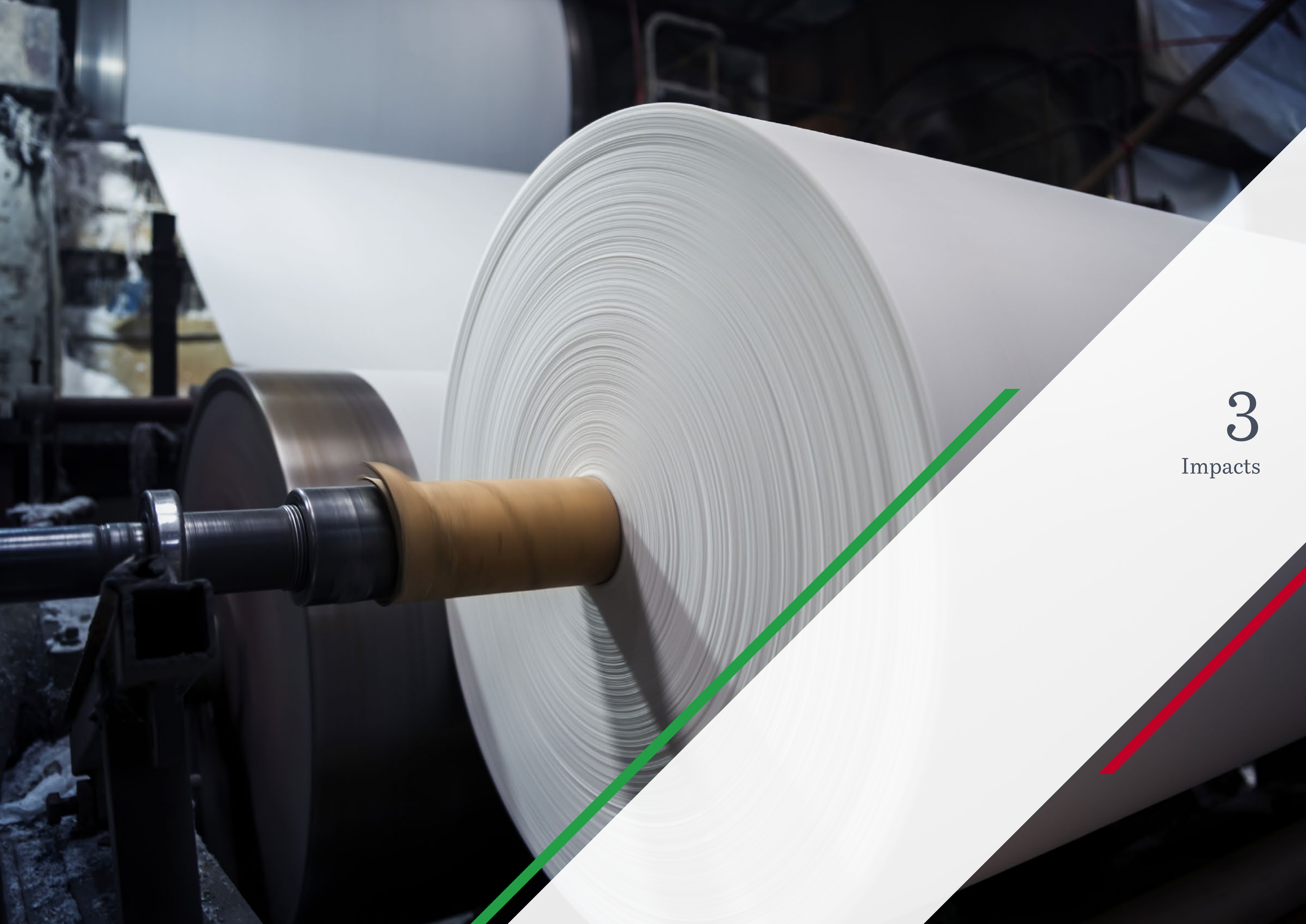
However, the relevance of manufacturing does not relate only to size. Rather, it depends on other elements regarding Italy's positioning in international markets:

1. In terms of value added, Italian manufacturing is the second in Europe after German[10];
2. In terms of international trade, Italian exports are worth 10% of all exports of manufacturing products in the Euro Area[11];
3. In terms of innovation, 67% of Italian manufacturing companies carry out innovative activities. They are more than 50% of all innovative Italian companies[12].

About 30% of the funds went to the **wholesale** and **retail sector**, followed by **accommodation** and catering services (5.6%). The latter is one of the most impacted sectors by the crisis. The contraction in value added in 2020 was over 40%.
In terms of geographical distribution, approximately **51%** of the total loans disbursed was allocated to companies operating in Northern Italy, mainly in **Lombardy**, **Veneto** and **Emilia-Romagna**. This derives from the geographical distribution of Italian companies. In fact, these three regions host more than a third (36%) of all Italian companies[13].

Moreover, it should be noted that looking only at the loans disbursed to **Micro-enterprises**, which represent 38% of total loans, about **56%** of these companies are located in **Central-Southern Italy**.

9 Data refer to "Industria Manifatturiera" in ATECO 2 digits classification (Istat, 2019).
10 Oxford Economics.
11 Ice-Istat, 2019.
12 Istat, 2018.
13 Istat, 2018.



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Impacts

The impacts generated by the *Covid-19 Social Response Bond* was evaluated and measured considering[14]:

Liquidity needs

During 2020, the pandemic crisis caused **the interruption of the operations of thousands of companies** throughout Italy and a general **collapse in turnover** in many sectors. The peculiarity of the crisis caused by Covid-19 is shown, on one hand, by the temporary nature of the interruption of supply chains and, on the other, the collapse in demand. For this reason, one of the priorities in this difficult year, was to **support the liquidity of firms**.

Following the methodology developed by Schivardi and Romano[15] (2020), we estimated the amount of liquidity needs of companies benefitting by the loans granted through the issue of this Social Bond. Through this methodology, it is possible to estimate company's cash flow during 2020 and to check if the cash available at the end of the fiscal year was enough to cover operational costs.

Applying this methodology to the portfolio, it is estimated that **39% of companies**, of which around 99% are SMEs, **did not have enough cash** to support production and personnel costs[16]. These **2.453 firms, employing 36.987 people**, did not have enough liquidity to cover cash flows in 2020 and risked bankruptcies, putting many jobs at risk. The situation of the Italian labor market in 2020 was very peculiar and was characterized, on one hand by the progressive loss of jobs for those with fixed-term contracts, on the other by the blocking of layoffs imposed by the government for those with permanent contracts.

If these firms had not relied on any credit line, it is estimated that they would have had **liquidity needs of over Euro 460 million**. This figure is obtained by estimating the cash flows of companies in 2020 and adding up these cash flows and the liquid assets of the companies at the end of 2019 (see methodology).

T*he Covid-19 Social Response Bond*, together with the public guarantees made available by the government through the *Fondo Centrale di Garanzia*, has granted loans for **Euro 303 million** which allowed these companies to cover a large part of the liquidity needs and face the contingent emergency by mitigating the risk of bankruptcy.

The remaining 61% of firms managed to **maintain a positive liquidity** even after having faced the cash flows of a complex year like 2020, characterized by a significant decline in turnover. However, it is estimated that firms' operations were very difficult during this year even for those firms able to maintain a positive level of liquidity. It was only possible thanks to an important cost cut and a substantial impact on capital expenses, supplies and personnel costs, especially the ones with temporary contracts.

The following table summarizes the estimations related to the level of liquidity of the companies benefiting from the loans disbursed to compensate for the erosion of liquidity caused by the reduction in turnover during 2020. The disbursements linked to the Social Bond decrease as companies' cash improve, testifying the social focus of the loans in the portfolio.

Financed companies classified based on the percentage of costs covered by cash equivalents[17]	Share of financing allocated to each class of firms	Jobs (total employees)
Less than 0	30%	36.987
Lower than 10%	24%	12.739
Between 10% and 25%	22%	10.110
Between 25% and 50%	15%	4.839
Greater than 50%	9%	1.850

CDP's Covid-19 Social Response Bond therefore contributed to **ensuring liquidity** to those companies that did not have it, allowing them to **face production and personnel costs** and, at the same time, to maintain employment levels. In many cases, in fact, ensuring liquidity for companies to meet their operating costs can make the difference between a company's survival and the risk of crisis, especially in the context of the current Covid-19 emergency.

14 Impact evaluation by the Sustainability division in CDP. For more information on the methodology, please check the document published on the website.
15 Schivardi, Fabiano and Romano Guido. "A simple method to estimate firms' liquidity needs during the Covid-19 crisis with an application to Italy." (2020): 51-69
16 The methodologies based on the Input/Output tables normally used to estimate the impacts of financial instruments such as this one, risk not to be adequate to account for a very peculiar situation in the job market we are observing in 2020. These methodologies in fact assume additional investments triggered by the credit lines and consider potential impacts on the supply chain (indirect effects) and on consumptions. In 2020, it is not possible to make a precise estimate based on parameters that are not updated with respect to the reference context.

17 The column classifies the beneficiaries based on the ratio between annual production and personnel costs and the amount of estimated available liquid resources. A percentage of less than 10% corresponds to a company that can cover less than 10% of annual costs with current liquidity.

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