



MCC: a “native” candidate to issue a Social Bond

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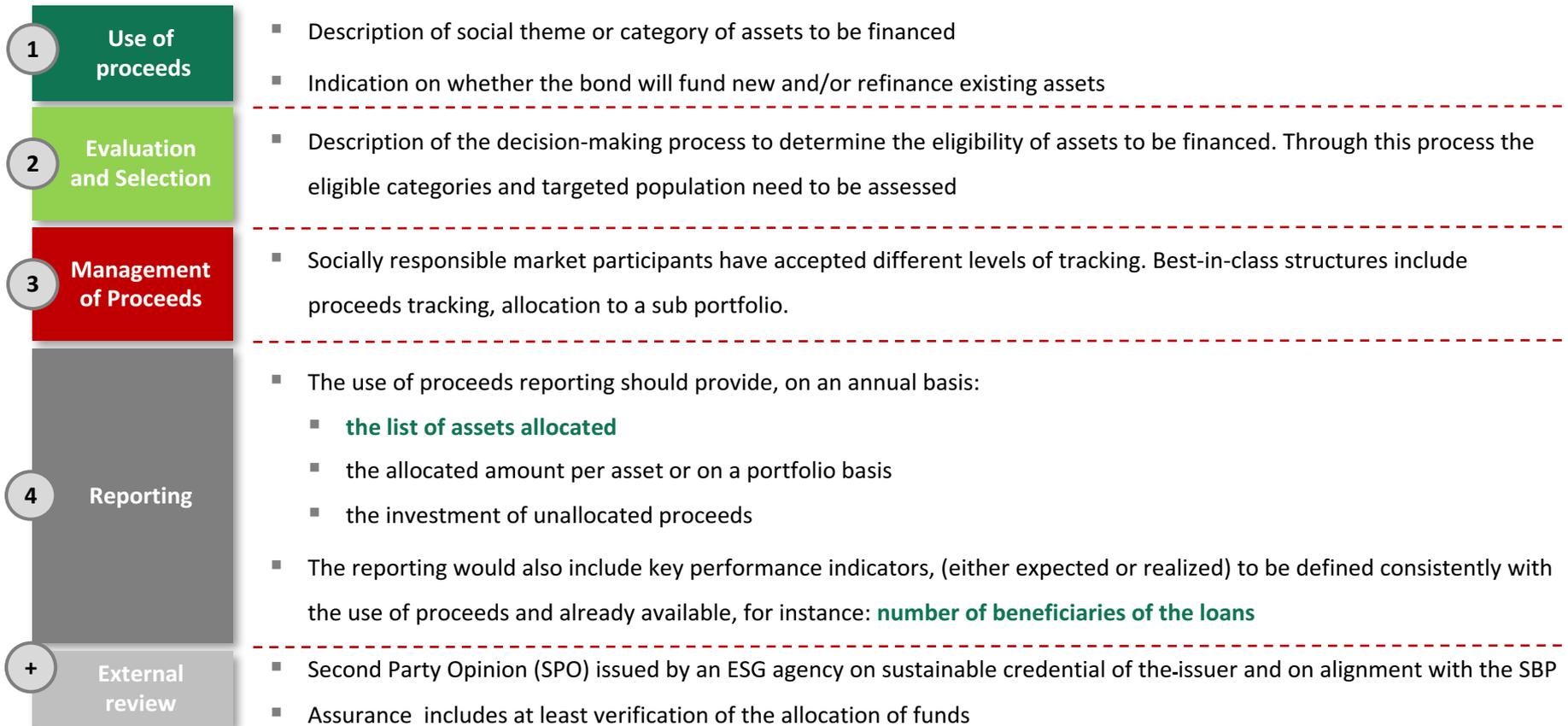
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What are the key features of a Social Bond?

A Social Bond complies with the four Social Bond Principles

- A Social Bond is a **standard bond** which aims at financing clearly earmarked **projects generating social benefits**
- Although no market standards are strictly defined, **4 key structuring elements** address most **socially responsible investors'** (SRI) expectations – the Social Bond Principles (SBP)*
- Depending on MCC's objectives and constraints, these elements can be defined in different ways



MCC – background and rationale

(1/2)



- MedioCredito Centrale S.p.A. (or “the Company”, or “the Bank”) was founded as a public law entity in 1952, established through Law No. 949 of 25 July 1952. It has been authorized to engage in banking activities in Italy since 1952.



- In 1999, the Ministry of the Treasury, Budget and Economic Planning privatized the Bank, transferring control to Banca di Roma, which later merged with UniCredit S.p.A..



Banca del Mezzogiorno – MedioCredito Centrale S.p.A.

- On 1 August 2011, the entire share capital of the Bank was sold by UniCredit S.p.A. to Poste Italiane.

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- On 7 August 2017, the sale from Poste Italiane to Agenzia nazionale per l’attrazione degli investimenti e lo sviluppo d’impresa S.p.A. (Invitalia S.p.A., “Invitalia”) was completed. The Italian Government controls the development agency Invitalia through the Ministry of Economy and Finance.
- The acquisition of MedioCredito Centrale constitutes an initiative agreed upon with the Italian Government with the objective of rationalizing the operations of public shareholdings by strengthening their synergies. **Through this acquisition, Invitalia proposes to reinforce its mandate from the Government to improve the competitiveness of Italy and, in particular, Southern Italy and to sustain sectors that are considered strategic for development.**

MCC – background and rationale

(2/2)

- MedioCredito Centrale conducts its business exclusively in Italy and is required to operate mainly in the regions of Southern Italy (or “South of Italy”, or “Mezzogiorno”), as provided under the relevant establishment law and its By-laws. “Mezzogiorno” refers to the six Southern Italian regions (Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria) and two insular regions (Sicilia and Sardegna). Those regions present significant disparities with the rest of Italy in terms of economic trends (Unemployment rates and GDP levels provided in the Use of Proceeds section).
- Under the provisions of article 2, paragraph 162, of the Law n.191, 23 December 2009 (Finance Law 2010), the Bank’s operations must be aimed at achieving the following:
 - expanding the capacity of products and services offered by the banking and financial system in Southern Italy;
 - sustaining business initiatives which are the most creditworthy, impacting upon costs of procuring the financial resources necessary for investments; and
 - channeling savings toward economic initiatives that lead to job creation in Southern Italy.

The Bank must operate "by sustaining investment projects in Southern Italy and promoting, in particular, lending to small and medium-sized enterprises", with a special focus on growth in size and internationalization of such Italian enterprises, research and innovation, with a view to creating jobs".

Accordingly, MedioCredito Centrale’s commitment to sustainability is clearly reflected in the law, its By-laws, but also through **strong internal policies** that govern the principles and values of its overall activities, among which **monitoring of prevalence objectives of supporting the economy of the South of Italy.**



MCC - A good candidate to issue a Social Bond

Long term support of sustainable growth, employment, and territorial development match SRI needs (1/2)

A strategy focused on prevalence of support to the economy of the South

The perceptive scope of the rules dedicated to MedioCredito Centrale is a constraint for the strategic guidelines of the Bank, imposing the prevalent pursuit of the objectives set by the legislator for the **economy of the South**. Consequently, the business plans and, more generally, any decision relevant to the Bank's business must be adopted and implemented in compliance with the legislative and statutory restrictions. In order to guide managerial choices, it was therefore necessary to identify applicable criteria aimed at achieving over time a smooth verification of compliance with the regulatory principle, also taking into account that the prevalence is not verifiable ex ante, nor on the basis of a single transaction, but requires an observation horizon at least in the medium term.



MCC - A good candidate to issue a Social Bond

Long term support of sustainable growth, employment, and territorial development match SRI needs (2/2)

MCC's core activity

With reference to Lending activities, the Bank grants loans to enterprises. The receivables owed by enterprises have been lent mainly in the regions of Southern Italy, although at 30 June 2018 the total loans to SMEs (32% of the total loans disbursed to enterprises) are substantially lower than the loans disbursed to large enterprises (amounting to 68%). Following the shares transfer, the Bank has developed a new business plan focused on loans **to companies, and in particular to SMEs, with a sharp increase in the number of transactions in the portfolio with reduced average tickets.**

With reference to Actions for Development, the Bank manages, on behalf of the Public Administration, a range of incentive instruments with several industrial policy objectives (access to credit, promotion of technological research and innovation, support for investments in machinery and plants, incentives for the capitalization of SMEs) pursued through a broad spectrum of subsidies (contributions towards interest and principal, subsidized loans, guarantees on loans, participation in risk capital investment and negotiated capital).

Supporting Southern Italy is part of MCC's DNA

The failure to comply with the rule of prevalence of support to the economy of the South can be subject to disciplinary sanctions imposed by the Supervisory Authority against the Bank's representatives. In order to measure and **monitor its ability to successfully achieve its mission**, the Bank has identified a **panel of indicators**, both qualitative and quantitative, divided into two categories: **The "Lending Business" indicators** and **The "Actions for Development" indicators.**

Prevalence's indicators

All indicators are subject to half-yearly monitoring and the results are presented to the Board of Directors and the Board of Statutory Auditors, which acknowledge the Bank's effective degree of orientation in achieving its statutory mission over the medium term.

The "Lending Business" indicators

Loans to the South on total Loans (amount)

This is the percentage ratio between existing loans classified by the Bank as "Loans to the South" relative to total existing loans to customers. Loans to the South are defined according to a set of indicators that demonstrate support of the economic activity in Southern Italy. The Bank has set a minimum target of 50% as a key objective to reach.

Businesses based in the South out of total businesses (number)

This indicator monitors the prevalence of business customers with registered offices in the South.

Territorial presence in the South

This is the percentage ratio between the Bank's offices open in the South and total offices.

Business loan files for the South

This is the percentage ratio between loan applications classifiable as "Loans to the South" received and total applications received from businesses during the same period.

The "Actions for Development" indicators

Loans and grants to the South related to the activity of the Bank on behalf of the Public Administrations

This measures the loans and grants destined for businesses in the South connected with the Bank's activity as Manager on behalf of the Public Administrations through instrument like the SME Guarantee Fund, the Sustainable Growth Fund or other National and Regional Funds.

Initiatives to mobilize and provide new resources to the South

This measures (i) the resources assigned to Southern companies by third parties (e.g. the Regions, EIF, CDP, etc.) co-financed with the Bank, (ii) initiatives to mobilize and disburse new resources to companies and public administrations in the South.

Study, promotion and social support initiatives

This measures the resources directed by the Bank to support (i) new young and women's business initiatives, research and innovation and cultural and economic progress, (ii) social initiatives in the South, (iii) the performance of studies aimed at supporting economic, social and employment growth in the South and (iv) study activities and implementation of subsidy actions in favor of the South in support of Public Administrations.

Social Bond principles for MCC

(1/3)

Considering MCC's strategy and statutory mission in alignment with Social Development Goals and SRI expectations the Bank:

1 - Use of Proceeds

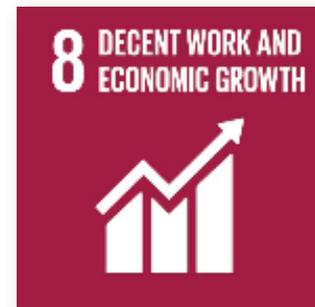
will allocate the proceeds of the Social Bond exclusively to finance and/or refinance, in whole or in part "Eligible Loans" granted to Italian enterprises which support positively the economic activities of the Deprived Areas of Italy, and in particular the South.

The beneficiaries of those loans can be:

- enterprises with registered offices in Deprived Areas, or
- if not headquartered in Deprived Areas, they can be enterprises which demonstrate a clear economic impact in Southern Italy
 - support investments, work, business initiatives in Southern Italy, or
 - contribute to creating value and employment in Southern Italy.

Eligible Loans will fall under the following Eligible Categories: *Support of Employment* and *Contribution to Socioeconomic advancement* through the financing of large companies and SMEs that contribute to creating economic value and job opportunities in Southern Italy.

The net proceeds of the social bond will have clear positive social impacts, supporting local economy and the achievement of the United Nations Sustainable Development Goal "**Decent work and economic growth**" (SDG 8), as well as advancing the MedioCredito Centrale 2018-2020 Business Plan.



Social Bond principles for MCC

(2/3)

2 - Evaluation and Selection

Each of the Eligible Loans will be selected according to the following eligibility criteria.

- **Deprived Areas** of Italy include:
 - either areas which have been impacted by natural disasters, or
 - regions of Italy where the GDP per inhabitant is lower than the national average.
- The enterprises that demonstrate **a clear economic impact in Southern Italy** must comply with at least one of the following conditions:
 - Financing is dedicated to Investments done in the South
 - Financing is related to projects (orders, construction sites, services) located in the South
 - Financing is related to the acquisition of company or business branches located in the South
 - The borrower (company or group) has one unique operational office located in the South
 - The borrower (company or group) has an operating office located in the South representing at least 50% of its total value of production or total number of employees.
- Eligible Loans must meet each of the following **Exclusionary Criteria**:
 - Enterprises financed are not operating in some business sectors , such as, but not limited to, tobacco, gambling, weapons and munitions, alcohol (excluding beer and wine);
 - The Eligible Loans are not financed by any other type of funding;
 - The Eligible Loans refinanced by the proceeds of the Social Bond can have a signing date up to three calendar years prior to the year of issuance.

3 - Management of Proceeds

The net proceeds of the social bond will be credited to MedioCredito Centrale's Treasury liquidity portfolio. They will be allocated to the portfolio of Eligible Loans duly selected as per the process described above. The list of Eligible Loans will be flagged in the internal accounting systems and updated regularly according to the following rules of management. Its aggregate amount will be reconciled on a regular basis with the total amount of the bond's net proceeds.

Within one year of the date of issuance and until maturity of the bond, MedioCredito Centrale commits on a best effort basis to reach **full allocation and at least 70%**. Any loan that would be repaid or no longer eligible shall be replaced by another one compliant with the criteria of eligibility of the social bond framework.

Unallocated proceeds will be temporarily invested in cash, deposits, and short-term liquid money market instruments. An external auditor appointed by MedioCredito Centrale will verify, on an annual basis, the proceeds allocated to eligible loans and the remaining balance of unallocated proceeds.

Social Bond principles for MCC

(3/3)

4 - Reporting

MedioCredito Centrale will produce annually, starting one year after issuance, until maturity of the bond:

An allocation reporting: the proportion of proceeds that are allocated to Eligible Loans, the part of unallocated proceeds, the total outstanding amount of Eligible Loans funded, share of refinancing.

An output and impact reporting: an estimation of the outputs and impacts of the eligible loans.

Examples of relevant impact metrics may include:

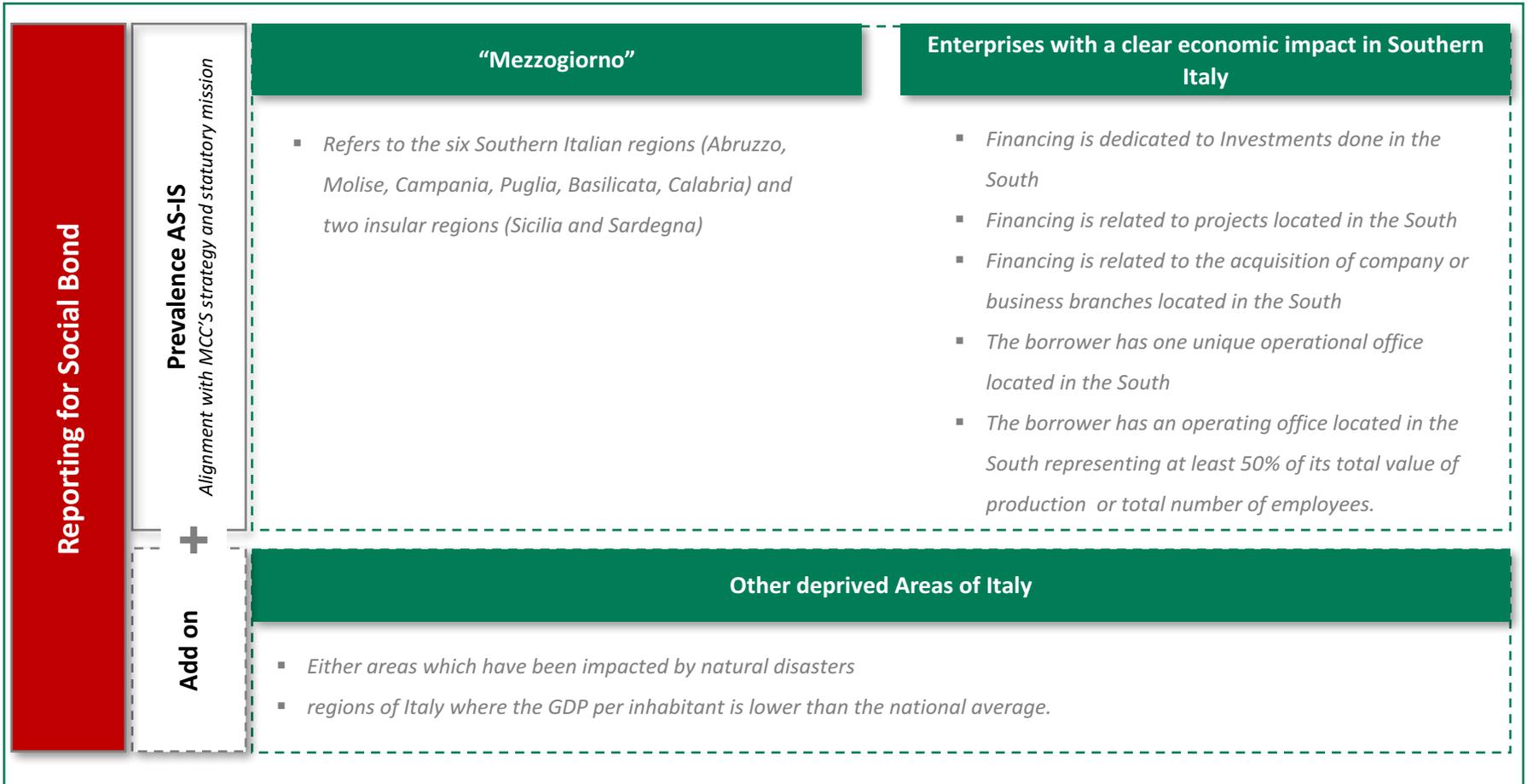
- **Output indicators:** Breakdown of the outstanding amount of Eligible Loans by region and by level of GDP per inhabitant; Breakdown of the outstanding amount of Eligible Loans by sector of activity.
- **Impact indicators:** Number of companies benefiting from the Eligible Loans, including a breakdown by type of company (SME, large company); Indicator on the social impact of the social bond brought to the South of Italy compared with other Deprived Areas. The percentage would be calculated with the application of a different weighting factor according to the type of contribution provided to the South as per the following table:

Weighting factors

Type of loans	Weighting factor		
	100	90	75
Borrower has its registered office located in the South of Italy	X		
Borrower is non-resident in the South but financing is related to Southern Italy region:			
Financing is dedicated to Investments done in the South of Italy	X		
Financing is related to projects (orders, construction sites, services) located in the South	X		
Acquisition of company or business branches located in the South	X		
The borrower (company / group) has one unique operational office located in the South	X		
The borrower (company / group) has an operating office located in the South representing:			
- at least 75% of its total value of production or total number of employees		X	
- between 50% and 74% of its total value of production or total number of employees			X

Our final report

Alignment with statutory mission, Sustainable Development Goals and SRI investors expectations



Thank you for your attention