

MedioCredito Centrale
SOCIAL BOND FRAMEWORK

MEDIOCREDITO
CENTRALE

|
INVITALIA
|

OCTOBER 2019

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INTRODUCTION: BACKGROUND AND RATIONALE

Background

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 and is registered with the register of banks referred to in article 13 of the TUB (the Consolidated Banking Act, *Testo Unico Bancario*), under registration number 4762.

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

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.

Invitalia’s scope of activities is defined in Article 4 of the by-laws which lets the Agency to perform mainly financial activities aimed at boosting the country’s economic growth, by focusing on strategic sectors for development and employment and being committed to reviving crisis areas, with particular respect to the South of Italy, within an institutional cooperation framework among public, regional and local administrations. In particular:

- managing all national incentives that encourage the creation of new companies and innovative startups, thereby backing the development of the Italian economic and manufacturing system;
- financing both large and small projects, by targeting entrepreneurs with concrete development plans, especially in innovative and high added value sectors;
- developing innovation and industrial competitiveness in productive and local systems;
- providing services to Public Administration in managing EU and national funds, also for the benefit to promoting cultural heritage

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.**

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).

MedioCredito Centrale's sustainable mission under the law and its By-laws

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:

- (i) expanding the capacity of products and services offered by the banking and financial system in Southern Italy;
- (ii) sustaining business initiatives which are the most creditworthy, impacting upon costs of procuring the financial resources necessary for investments; and
- (iii) 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".

Moreover, under its by-laws, the Bank also engages in:

- (i) additional activities consisting of management and disbursement of publicly facilitated financing; and
- (ii) traditional banking operations, provided that they are conducted mainly in favor of the regions of Southern Italy or in line with the original objectives pursued since its establishment. In particular, **the Bank's operations are composed of two main areas: lending activities and development initiatives.**

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. They are formalized through the Code of Ethics, Suppliers' and Partners' Code of Conduct, Credit Policies and Process of implementation and monitoring of prevalence objectives of supporting the economy of the South of Italy.

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 criteria¹ 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.

¹ See list of criteria in section « Rationale » of the framework

Rationale

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 31 December 2018 the total loans to SMEs (34% of the total loans disbursed to enterprises) are substantially lower than the loans disbursed to large enterprises (amounting to 66%). Following the shares transfer to Invitalia, 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). Such activity is addressed to various types of companies, also for the purpose of optimizing the use of national and community public resources.

In particular, the Bank oversees the management of the Guarantee Fund for SMEs ("Fondo di Garanzia per le PMI"), which represents an important public instrument at the European level to help SMEs obtain credit access, which was also widely used as a counter-cyclical tool in the recent Italian economic recession.

In addition to the Guarantee Fund, the Bank manages various incentives and facilitation financial instruments for research and innovation, on behalf of the State and a number of Regions.

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

- 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 of Italy" 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, EIF², CDP³, 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.

All of the above indicators are subject to half-yearly monitoring and the results are presented to the Board of Directors and the Board of Statutory Auditors, who monitor the effectiveness in achieving its statutory mission over the medium term.

As outlined in the **2018-2020 Business Plan** approved in December 2017, and detailed in the 2018 and 2019 budget (approved in January 2018 and February 2019), the Bank intends on developing its business in line with the prevalence principle of supporting the economy of the Southern Italy, fully taking advantage of the synergies offered by the Shareholder (Invitalia) purpose and role, as already described in the « Background » section of the framework, and, consolidating its role as a level II bank, through the necessary revision of its commercial and operational models. Therefore, the Bank will focus its operations on 3 development lines:

- Development Bank through:
 - a focus on loans to SMEs, prevalently in the South;
 - promoting and supporting infrastructural projects;
 - financing complementary public incentives offered to businesses;
- Level II Bank through:
 - a business model based on agreements with other credit institutions;
 - participation in pooled loans;
 - agreements with other banks to amplify the use of public funds;
- Service Bank through:
 - policies to accelerate SMEs access to credit;
 - a focus on the Guarantee Fund, integrated with management of incentives for businesses.

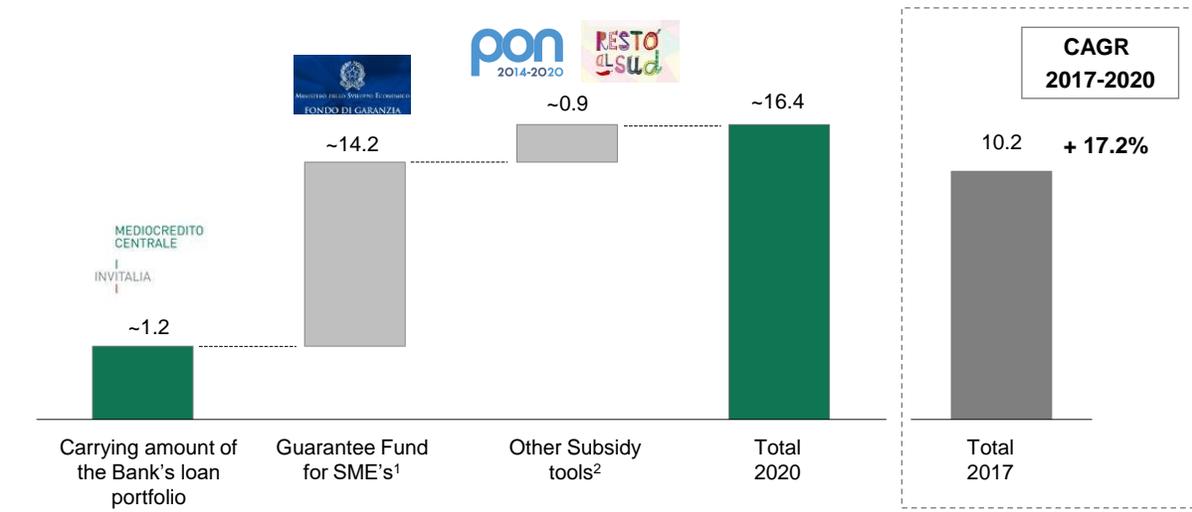
² EIF, European Investment Fund

³ CDP, Cassa depositi e prestiti, is the Italian National Promotional Institution

The expected increase in credits dedicated to the South of Italy is 17.2% between 2017 and 2020.

Total outstanding loans to the economy of the South

(2020E, € Bil)



- Total stock of loans outstanding on the basis of the 2018 - 2020 Business Plan
- Stock of loans granted to the South through the guarantee of the Fund
- Stock of loans granted through other subsidy tools for which the Bank is concessionaire (Jeremie Campania/Calabria, MISE, PON, Resto al Sud...)

(1) Estimated total stock of loans granted by the Guarantee Fund to the South, defined on the basis of the annual report 2017 and the new allocations that will be made on the Fund
 (2) Estimated on the basis of the incidence of operations of the southern regions on the active conventions managed by the Bank

In order to support its operations and in compliance with its Business Plan, MedioCredito Centrale considers Social Bonds as an effective tool to channel liquidity to assets that have social objectives and benefits and thereby contribute to the achievement of the United Nations Sustainable Development Goals, particularly UN SDG 8 “Decent work and economic growth” which aims for the promotion of “sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”.

SOCIAL BOND FRAMEWORK – APPLICATION OF THE SOCIAL BOND PRINCIPLES 2018⁴

This document details the framework used for the purpose of the issuance done in alignment with the Social Bond Principles. The Social Bond Principles are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the social bond market by clarifying the approach for issuing a social bond. Accordingly, MedioCredito Centrale Social Bond Framework (“Social Bond Framework” or “Framework”) is presented through the following key pillars:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting
- External review

The company will use this framework as reference for the inaugural social bond but also for any other future social bond issuance (both referred as the “Social Bond” in this document). In the future, MedioCredito Centrale may extend the Eligible Categories of potential eligible loans defined in the Use of Proceeds section. Any changes made will be documented in an updated Social Bond Framework and published accordingly on its website at <http://www.mcc.it>.

⁴ The Social Bond Principles were issued by the International Capital Market Association (ICMA) in June 2018.

Use of Proceeds

As per 2017 official data, Mezzogiorno's Gross Domestic Product per capita represents half that of the most performing Northern regions due to several years of sustained economic contraction. It is within the two lowest quintiles of Italy's levels.

Areas of Italy where GDP per inhabitant⁵ is lower than national average

	<u>GDP at market prices</u> <u>per inhabitant (€)</u>		<u>Unemployment</u>
	2017	Quintile	rate
Italy - National average	28,494		10.6
Centro - regional average	30,705		9.4
Marche	26,597	3	8.1
Umbria	24,326	4	9.2
Mezzogiorno - regional average	18,512		18.4
Abruzzo	24,403	4	10.8
Basilicata	20,816	4	12.5
Sardegna	20,301	4	15.4
Molise	19,454	5	13.0
Campania	18,233	5	20.4
Puglia	17,994	5	16.0
Calabria	17,051	5	21.6
Sicilia	17,376	5	21.5

Quintile⁶ GDP per inhabitant (€) - 2017	
1	>= 36,000
2	>= 31,000 <36,000
3	>= 26,000 <31,000
4	>= 20,000 <26,000
5	<20,000

MedioCredito Centrale 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 Areas⁷ of Italy, and in particular the South.

The beneficiaries of those loans can be

- (i) enterprises with registered offices in Deprived Areas, or
- (ii) if not headquartered in Deprived Areas, they can be enterprises which demonstrate a clear economic impact in Southern Italy
 - a) support investments, work, business initiatives in Southern Italy, or
 - b) 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 Deprived Areas.

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 8.3)⁸, as well as advancing the MedioCredito Centrale 2018-2020 Business Plan.

⁵ Gross Domestic Product per inhabitant. Source: Istat annual edition (Istituto nazionale di statistica).

⁶ Calculated on the basis of split of GDP per inhabitant by region provided by Istat

⁷ See definition in section “Process for loan evaluation and selection”

⁸ Contributing to achieving in particular the specific target of SDG 8.3: “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”

Process for loan evaluation and selection

The selection process of the Eligible Loans will be compliant with MedioCredito Centrale commitment to improve the portfolio's social performance and more globally with its business and sustainable strategy.

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, including the evaluation and selection of Eligible Loans. The Social Bond Working Group is composed of representatives from the Bank: Finance department; Credit department; Market department; Legal department; Compliance department; IT department and Planning department which is responsible for the preparation of the business plan and reports on prevalence of support to the South. The Social Bond Working Group will track its decisions and keep the minutes of its meetings.

MedioCredito Centrale takes care that all selected Eligible Loans comply with relevant local laws and regulations. This assertion relies on the company's credit approval process, which includes KYC⁹ assessment with regards to the Banking regulation, Credit policies and Credit Regulations. MedioCredito Centrale will implement a continuous reputational risk assessment of the companies that benefit from the Eligible Loans. Any company that will be subject to material reputational controversy¹⁰ will be excluded from the portfolio of Eligible Loans and replaced immediately, on a best effort basis.

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

- (i) **Deprived Areas** of Italy include:
 - a) either areas which have been impacted by natural disasters¹¹, or
 - b) regions of Italy where the GDP per inhabitant¹² is lower than the national average.
- (ii) The enterprises that demonstrate a **clear economic impact in Southern Italy** must comply with at least one of the following conditions:
 - a) Financing is dedicated to Investments done in the South
 - b) Financing is related to projects (orders, construction sites, services) located in the South
 - c) Financing is related to the acquisition of company or business branches located in the South
 - d) The borrower (company or group) has one unique operational office located in the South
 - e) The borrower (company or group) has an operating office located in the South representing at least 50% of its total value of production¹³ or total number of employees.

⁹ Know your customer (alternatively know your client or 'KYC') is the process of a business identifying and verifying the identity of its clients.

¹⁰ A "material controversy" is defined as a controversy which significantly impacts a client's activity from an environmental and/or social stand point. This could include, and is not limited to, the non-respect of environmental rules set by the law or working conditions.

¹¹ According to law and applicable regulations.

¹² Gross Domestic Product per inhabitant. Source: Istat annual edition (Istituto nazionale di statistica).

¹³ The value of production is equal to the sum of: 1) Revenues from sales and services; 2) changes in inventories of work in progress, semi-finished and finished products; 3) changes in contract work in progress; 4) increases in fixed assets for internal works; 5) other revenues and income.

(iii) Eligible Loans must meet each of the following **Exclusionary Criteria**:

- a) Enterprises financed are not operating in the business sectors listed in Annex hereto, such as, but not limited to, tobacco, gambling, weapons and munitions, alcohol (excluding beer and wine), pornography, fossil fuels;
- b) The Eligible Loans are not financed by any other type of funding;
- c) 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.

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 to reach at least 70% of allocation and, on a best effort basis, full allocation. The allocation will be determined on the basis of the level of utilization of the Eligible Loans (outstanding amounts) rather than on the commitment amounts.

Any loan that would be repaid or no longer eligible shall be replaced immediately, on a best effort basis, 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, in accordance with MedioCredito Centrale's Treasury policy. The Bank's "Guidelines for Financial Management" policy provides for the possibility of investing in Government Securities of The Economic and Monetary Union (EMU) countries with a maximum residual term of 48 months. Unallocated proceeds will not be invested in any greenhouse gas intensive activity or in any controversial activity.

The Bank's Social Bond Working Group will oversee the monitoring of the bond's proceeds.

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.

Reporting

MedioCredito Centrale will produce annually, starting one year after issuance, until the full allocation of proceeds:

- An allocation reporting

The report will indicate 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

MedioCredito Centrale commits on a best effort basis to report an estimation of the outputs and impacts of the eligible loans. Examples of relevant impact metrics may include:

Output indicators

- Breakdown of the outstanding amount¹⁴ 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)¹⁵
- Number of employees retained¹⁶ in the companies benefiting from the Eligible Loans
- Indicator on the social impact of the social bond brought to the South of Italy compared with other Deprived Areas. This indicator would be defined as the part of the Loans within the total portfolio of Eligible Loans which is dedicated to the support of Southern Italy. This 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:

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 ¹⁷ or total number of employees		X	
- between 50% and 74% of its total value of production or total number of employees			X	

¹⁴ The outstanding amount always represents the financing share attributable to MedioCredito Centrale

¹⁵ SMEs definition: according to the classification of the Bank, since 2018 the category of small, medium, and micro-sized enterprises (SMEs) is made up of enterprises which turnover is lower than fifty million euros or balance sheet total lower than € 43 million and number of employees up to 250. It is to be noted that information is available on a stand-alone basis. A project is being implemented to get the classification by calculating "group" indicators and not just "stand-alone" ones.

¹⁶ Retained employees represent the total number of employees of the companies.

¹⁷ The value of production is equal to the sum of: 1) Revenues from sales and services; 2) changes in inventories of work in progress, semi-finished and finished products; 3) changes in contract work in progress; 4) increases in fixed assets for internal works; 5) other revenues and income.

The calculation methodology for determining the indicators will be provided together with the annual reporting.

The information on beneficiaries, region, or sector of activity will concern either (i) the direct borrowers of the eligible loans, or (ii) the targeted companies located in the South region and benefiting indirectly from the eligible loans granted to borrowers located outside the South (as per the criteria of contribution to the economic development of the Southern regions of Italy described in the « Process for project evaluation and selection » section, part (ii)).

MedioCredito Centrale may include in the reporting additional quantitative or qualitative indicators when considered relevant for the illustration of the social benefits related to the Eligible Loans.

External Review

1. Second Party Opinion

Prior to issuance, MedioCredito Centrale has commissioned Vigeo Eiris to obtain an external review of its Social Bond Framework, in compliance with the Social Bond Principles 2018. Vigeo Eiris has reviewed MedioCredito Centrale SpA social bond framework and issued a second opinion on the framework's sustainability credentials and its alignment with the Social Bond Principles.

The second opinion will be available on MedioCredito Centrale website at <http://www.mcc.it>.

2. Verification of the reporting

MedioCredito Centrale will make public on its website (<http://www.mcc.it>) an assurance report provided by its external auditor or any other appointed independent third party. For each reporting, the auditors will verify:

- a. The allocated and unallocated proceeds
- b. The compliance of the Eligible Loans with the defined eligibility criteria
- c. The review of the impact reporting

ANNEX - EXCLUSION LIST OF SECTORS¹⁸

MedioCredito Centrale will not allocate proceeds received from the issuance of the Social Bond to enterprises operating in the following sectors:

- Growing of tobacco (011500)
- Mining of non-ferrous metal ores (072000)
- Distilling, rectifying and blending of spirits (303000)
- Manufacture of tobacco products (120000)
- Mining of uranium and thorium ores (072100)
- Uranium enrichment (244610)
- Manufacture of explosives (205100)
- Manufacture of weapons and ammunition (254000)
- Manufacture of machinery for food, beverage and tobacco processing (289300)
- Manufacture of air and spacecraft and related machinery (303000)-
- Manufacture of military fighting vehicles (304000)
- Repair of fabricated metal products, machinery and equipment (331100)
- Agents involved in the sale of food, beverages and tobacco (461700)
- Wholesale of grain, unmanufactured tobacco, seeds and animal feeds (462100)
- Wholesale of beverages (463400)
- Wholesale of tobacco products (463500)
- Retail sale of beverages in specialized stores (472500)
- Retail sale of tobacco products in specialized stores (472600)
- Other retail sale of new goods in specialized stores (477800)
- Defence activities (842200)
- Gambling and betting activities (920000)
- Other amusement and recreation activities (932900)

¹⁸ European NACE classification