



Fitch Affirms Cassa del Trentino at 'A-'; Outlook Negative

Fitch Ratings - Milan - 28 May 2019: Fitch Ratings has affirmed Cassa del Trentino's (CdT) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-' with Negative Outlook, and Short-Term Foreign-Currency IDR at 'F1'. Fitch has also affirmed CdT's bonds and notes at long-term 'A-'

CdT's IDRs move in tandem with those of the Autonomous Province of Trento (PAT), which guarantees CdT's bonds and loans, warranting rating equalisation under Fitch's government-related entities (GRE) criteria. CdT is also credit-linked to PAT through the strength of their links and Fitch's assessment of PAT's willingness to provide extraordinary support if needed. This translates into a high score of 45 using the top-down approach under Fitch's GRE criteria, resulting in rating equalisation even without the assessment of the standalone profile.

Key Rating Drivers

Status, Ownership and Control Assessed as Very Strong

Fitch assesses this rating factor as 'very strong', contributing to the alignment of CdT's IDR with that of PAT. CdT's limited liability status does not imply automatic transfer of liabilities to PAT by legal provisions should the former for any reason be subject to liquidation. The evolving national legislation on local and regional governments' (LRGs) companies subjects them to bankruptcy, despite a non-univocal interpretation by judges.

However, the high likelihood of liability transfer stems from the functional proximity to government functions as CdT borrows on PAT's behalf, and from April 2019 has been included in the Eurostat perimeter of public sector. CdT is fully owned, enabling PAT to appoints CdT's board of directors; approve annual budgets, medium-term business plans and financial statements and retain control of strategic decisions and policy design. CdT's subjection to PAT's direction and control entails routine checks of the adherence of CdT's operations to provincial guidelines while eventual unpaid CdT's creditors can enforce their rights against PAT as per law provision, leading to ex-post legal transfer of liabilities.

Support Track Record and Expectations Assessed as Very Strong

The assessment reflects ongoing annuity transfers matching CdT's needs for interest and principal repayment, as CdT itself is not designed for profit. As an in-house provider of financial and consultancy services carrying out near-governmental functions, Fitch believes PAT's extra-ordinary support to CdT would not be hampered by EU state-aid rules while the national legislation tends to allow for equity injections for loss-making GREs when part of a recovery plan.

The legislation mandates LRGs to make provisions against risks of losses of subsidiaries, as well as activate early warning indicators of possible financial stress, such as an asset-liability mismatch for CdT aiming to prompt government support to prevent distress. Provincial support is also demonstrated by guarantees on borrowing, although CdT is planning future unguaranteed borrowing. Extraordinary support is likely to come through an increase of funds, which CdT receives from PAT and disburses to municipalities and public sector entities falling under PAT's surveillance.

Socio-political Implications of Default Assessed as Moderate

Fitch's assessment reflects CdT's relatively low visibility outside its strict operating range, which involves about

a dozen investors in CdT's EUR1 billion outstanding, the EIB as a main bank lender and about one hundred borrowers/beneficiaries of the province's resources. While municipalities and provincial companies could switch to banks for borrowing, CdT is also an instrument for the implementation of other provincial policies. These range from the monitoring of aggregated public sector debt, to consultancy services, such as PPP implementation, and the disbursement of provincial funds to local cities and companies whose interruption in case of CdT's dysfunctionality may be disruptive for munis and PAT's subsidiaries.

Financial Implications of Default Assessed as Very Strong

The assessment factors in Fitch's expectations that an eventual default by CdT would harm PAT's borrowing capacity, whose guarantees strengthen the identification among financial market participants of CdT as a provincial proxy funding operator. As CdT borrows for PAT, and upon the latter's mandate, Fitch deems that distress/default of CdT would fully reflect on the market's perception of the province's credit quality.

Operations

Fitch expects CdT's assets to hover around EUR2 billion over the medium term, as it slows new borrowing to also absorb nearly EUR300 million of liquidity. We expect CdT's guaranteed market debt for bonds and loans to rise to EUR1.5 billion from EUR0.9 billion in 2018 as PAT may phase-in pro-growth spending to counter a prolonged GDP stagnation (2019-2021) as envisaged in Fitch's conservative rating case scenario.

Fitch expects CdT's net interest income to range between EUR15 million and EUR10 million over the medium term as the implied interest rate spread differential of about 100bp may come under pressure. The growing cost of borrowing for Italian public sector entities may erode the benefit of discounted rates for the province's annuities differentiated on the basis of borrowing markets aimed at making the future interest margin less volatile amid a stronger correlation between rate of interests on funding and the corresponding assets/credits towards the province.

CdT only being exposed to PAT translates into no provision for impairment.

Derivation Summary

Rating equalised amid debt guaranteed by PAT

Key Assumptions

Future borrowing government guaranteed

RATING SENSITIVITIES

A change in PAT's IDRs would lead to corresponding changes in CdT's IDRs.

A dilution of support resulting from non-guaranteed financial debt towards 25% of total debt and/or a change in statute or the legislative framework weakening CdT's links with the province, may lead to negative rating action

Summary of Financial Adjustments

none

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Cassa del Trentino S.p.A.	LT IDR A-  Affirmed	A- 
	ST IDR F1 Affirmed	F1
	LC LT IDR A-  Affirmed	A- 
senior unsecured	LT A- Affirmed	A-

Additional information is available on www.fitchratings.com

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Applicable Criteria

Government-Related Entities Rating Criteria (pub. 29 Mar 2019)

Rating Criteria for International Local and Regional Governments (pub. 09 Apr 2019)

Short-Term Ratings Criteria (pub. 02 May 2019)

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