

CREDIT OPINION

11 August 2022

Update

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RATINGS

Cassa del Trentino S.p.A.

Domicile	Italy
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Cassa del Trentino S.p.A. (Italy)

Update following outlook change to negative

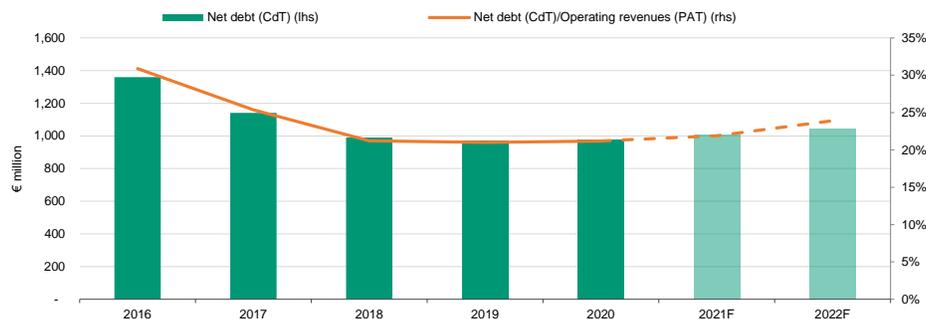
Summary

The credit profile of [Cassa del Trentino SpA](#) (CdT, Baa1 negative) reflects its strategic role as the financial arm of the [Autonomous Province of Trento](#) (Baa1 negative), as well as irrevocable annual provincial transfers fully covering CdT's debt service. We analyse CdT's creditworthiness as part of the Autonomous Province of Trento in order to reflect the high level of provincial involvement in its operations and governance, as well as its critical role in effectively managing provincial funds allocated to the local public sector.

Exhibit 1

We expect CdT's net debt to remain moderate compared to operating revenues of the Autonomous Province of Trento (PAT)

Net debt (CdT) (€ million) and Net debt (CdT)/Operating revenues (PAT) (right axis)



F - forecast

Source: Issuer, Moody's Investors Service

Credit strengths

- » The Province of Trento's full ownership reflects CdT's complete reliance on the province to fund its operations
- » The Province of Trento's commitment to guarantee all of CdT's funding activities, and to advance liquidity when deemed necessary

Credit challenges

- » Moderate debt exposure, expected to increase mildly

Rating outlook

The negative rating outlook reflects close institutional, economic and financial links between CdT and its owner - the Autonomous Province of Trento.

Factors that could lead to an upgrade

The strengthening of Italy's credit profile, as reflected by an upgrade of the sovereign rating, albeit unlikely given the current negative outlook on the Government of Italy, would exert upward pressure on CdT's rating.

Factors that could lead to a downgrade

A downgrade of Italy's sovereign rating and/or indications of weakening government support could lead to a downgrade of CdT's rating. A downgrade of the Autonomous Province of Trento's rating would also lead to a downgrade of Cassa del Trentino S.p.A.'s ratings. Additionally, any material change in the statute of Cassa del Trentino S.p.A could negatively affect its ratings.

Detailed credit considerations

On 9 August 2022, [we affirmed Cassa del Trentino SpA's ratings to Baa1 and changed the outlook to negative from stable](#), following the corresponding action on its support provider (Autonomous province of Trento, Baa1 negative). This reflects the strong institutional links to its sole shareholder, that we expect to provide extraordinary support in the event of distress.

The province of Trento's full ownership reflects CdT's complete reliance on the province to fund its operations

The Province of Trento and CdT are extremely closely inter-related, as reflected in the provincial administration's direct appointment of CdT's board of directors and its complete reliance on the Province of Trento for funding. Although CdT is a private firm that is legally independent from the province, the provincial government approves its strategy, defines its activities and periodically controls its finances. There is a regular operational dialogue between CdT and the province. The institutional framework in which CdT operates is mostly regulated by provincial legislation, as well as by a long-standing convention with the province.

CdT is wholly owned by the Province of Trento and acts as its financial arm. CdT's primary purpose is to manage provincial funds allocated both for capital investments and for distribution to the wider public sector, primarily municipalities. CdT's main strategic role is to fulfil the province's interests by offering an improved and streamlined funding mechanism, given its more efficient management of liquidity and wider public sector debt. The centralisation of the funding mechanism has proven to be economically viable for the province, as indicated by constant returns in terms of savings and tax revenues.

We consider CdT to be a government-related issuer. From a credit-risk profile perspective, it is not meaningful to distinguish between CdT and the Autonomous Province of Trento because of the intrinsic operational and financial ties between the two.

The province of Trento's commitment to guarantee all of CdT's funding activities, and to advance liquidity when deemed necessary

CdT's role continues to evolve through the acquisition of new functions on behalf of the province. CdT has strengthened the liquidity management of provincial funds toward local governments in the province by incorporating the operating transfers of the municipal sector. In addition, CdT acts as a financial advisor to other entities in the wider public sector and plans to expand its activity into public-private partnerships which either the provincial companies or the province itself will implement. Given the off-balance-sheet nature of these projects, we will closely monitor the financial involvement of CdT.

During the 2020-21 ongoing pandemics, CdT channelled PAT's financial contributions to sustain local economy. The entity also supported the province through the postponement of the annual contribution it receives from PAT covering its debt service by 1 year. This freed around €109 million for PAT in 2020-21, while translating in only €13.3 million of lower revenue for CdT. We consider the measure to not be detrimental to CdT's credit profile and to be in line with our rating approach. Moreover, CdT created a 'growth fund' (*Fondo Crescita*) in order to introduce its regional companies to capital markets and a 'social housing fund' (*Fondo Rigenerazione Trentino*) to sustain the re-urbanization of Trento.

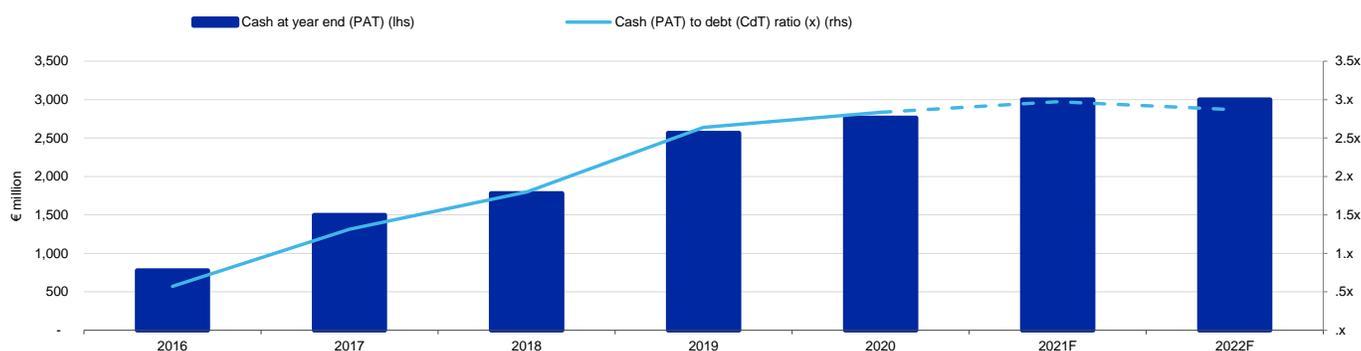
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The amount of extraordinary support that CdT would potentially require in the event of distress should be comfortably within the province's financial capacity: the provincial cash at year-end 2020 would fully cover CdT's outstanding debt. Furthermore, CdT benefits from the Province of Trento's commitment to promptly advance liquidity to CdT when deemed necessary.

Exhibit 2

Mounting PAT cash will cover three times the CdT's net debt

Cash at year end (PAT) (€ million) and Net debt (CdT)/Operating revenues (PAT) (right axis)



F - forecast

Source: Issuer, Moody's Investors Service

However, the management has been able to undertake a conservative strategy, which enables CdT to report some profits every year, although CdT is not a profit-making institution.

Moderate debt exposure, expected to increase mildly

As of year-end 2020, CdT reported outstanding net financial debt of €975 million - most of which is explicitly guaranteed by the Province of Trento - relatively constant from 2019 level. The debt comprises notes for €363 million, €305 million loans from [European Investment Bank](#) (EIB, Aaa, STA), loans from the state bank [Cassa Depositi e Prestiti](#) (Baa3, STA) for €158 million and other interest-free loans from the region and province of Trento. In 2020, CdT subscribed €160 million with EIB, being the first Italian sub-sovereign entity to subscribe a loan with EIB after the COVID outbreak, under very favorable conditions (interest rate at 0.051%). In 2021 CdT's net financial debt is expected to increase to €1,009 million on the back of two new debt positions totaling €174 million.

We regard all CdT's debt as the province's debt, given the presence of guarantees and irrevocable annuities from the province that fully match all debt-service payments.

ESG considerations

We take into account the impact of ESG factors when assessing sub-sovereign issuers' economic and financial strength. In the case of CdT, the materiality of ESG to its credit profile is as follows:

Environmental considerations are not material to CdT's credit profile. Its main environmental risk exposures relate to avalanche and landslide risks. Both are predominantly managed by national authorities, especially in case of emergency (stato di emergenza), therefore the corresponding negative economic and fiscal pressure that could arise on Trento's credit profile is limited.

Social risks are not material to CdT's credit profile. It has exposure to social risks, associated to demographic, labour income and education. Nevertheless these risks are not material for the credit profile, given its strategic role and the support coming from PAT.

Governance considerations are material to CdT's credit profile. The governance framework is intrinsically intertwined with PAT, which exerts strong control over the entity and heavily influences the definition of its strategy.

Further details are provided in the "Detailed credit considerations" section. Our approach to ESG is explained in our cross-sector rating methodology [General Principles for Assessing ESG Risks](#).

Rating methodology and scorecard factors

For details about our rating approach, please refer to our [Government-Related Issuers](#) rating methodology, published on 21 February 2020.

Ratings

Exhibit 3

<u>Category</u>	<u>Moody's Rating</u>
CASSA DEL TRENTINO S.P.A.	
Outlook	Negative
Issuer Rating	Baa1
Bkd Senior Unsecured -Dom Curr	Baa1

Source: Moody's Investors Service

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