

Cassa del Trentino S.p.A. (/gws/en/esp/issr/85737473)**Fitch Affirms Cassa del Trentino at 'A-'; Outlook Stable**

Fitch Ratings-Milan-01 June 2018: Fitch Ratings has affirmed Cassa del Trentino's (CdT) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'A-' with Stable 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, thus 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 based on 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 in the absence of the assessment of CdT's standalone profile.

KEY RATING DRIVERS

Status, Ownership and Control Assessed as Very Strong

Fitch assesses this rating factor as "very strongly" contributing to the alignment of CdT's IDR with that of PAT. It should be noted that CdT's nature of limited liability does not imply automatic transfer of liabilities to PAT by legal provisions should the former be subject to liquidation. It remains subject to the evolving national legislation on local and regional governments' (LRGs) companies, including on bankruptcy.

However, CdT is fully owned by PAT, enabling the latter to appoint CdT's board of directors; approve its annual budgets, medium-term business plans and financial statements; and exercise control over strategic decisions and policy design. PAT's direction and control entails routine checks of CdT's operations adhering to provincial guidelines. CdT's unpaid creditors can enforce their rights against PAT as per law provision, leading to ex-post transfer of liabilities. Ultimately CdT borrows on PAT's behalf, and this, together with CdT's functional proximity to PAT's governmental operations, lead Fitch to believe that CdT's liabilities would be transferred to PAT in case of liquidation.

Support Track Record and Expectations Assessed as Very Strong

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

The legislation mandates LRGs to make provisions against risks of losses of subsidiaries, as well as provide early warning of possible financial stress, such as asset-liability mismatch for CdT aiming to prompt government support to prevent distress. Provincial support is also demonstrated by PAT's guarantees on CdT's borrowing although CdT is planning for 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 under PAT's surveillance.

Socio-Political Implications of Default Assessed as Moderate

Fitch's assessment reflects the low visibility of CdT outside its strict operating scope, which involves about a dozen investors in CdT's outstanding EUR1 billion bonds, the EIB as a main bank lender and about 100 borrowers/beneficiaries of the province's resources. While municipalities and provincial companies could switch to banks for borrowing, CdT is also a vehicle for the implementation of other provincial policies; these range from the monitoring of aggregated public sector debt, to consultancy services and the disbursement of provincial funds to local cities and companies. This means a default of CdT may be disruptive for municipalities 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 undermine PAT's borrowing capacity, whose guarantees strengthen CdT's position as a provincial proxy funding operator. As CdT borrows on behalf of PAT, and upon the latter's mandate, Fitch deems that a default of CdT would affect the province's credit quality.

Operations

Fitch expects CdT's assets to remain at around EUR2 billion over the medium term, as it slows new borrowing to use nearly EUR300 million of liquidity, and CdT's guaranteed bonds and loans to be around EUR1.3 billion. Newly introduced discounted rates of the province's annuities could make future interest margin less volatile amid a stronger correlation between funding rates and corresponding contributions from the Province.

Fitch expects CdT's net interest income to be around EUR15 million, supported by

an implied interest rate spread differential of about 100bp. With persistent high leverage as indicated by an equity/assets of about 5%, average return on equity will likely remain close to 10% over the medium term. CdT's only exposure to PAT translates into no provision for impairment.

RATING SENSITIVITIES

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

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

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Autonomous Province of Trento

DATE OF RELEVANT COMMITTEE

31 May 2018

Cassa del Trentino S.p.A.

----Long Term Issuer Default Rating; Affirmed; A-; RO:Sta

----Short Term Issuer Default Rating; Affirmed; F1

----Local Currency Long Term Issuer Default Rating; Affirmed; A-; RO:Sta

----senior unsecured LT A-; Long Term Rating; Affirmed; A-

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Additional information is available on www.fitchratings.com

Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (<https://www.fitchratings.com/site/re/878660>)

Government-Related Entities Rating Criteria (pub. 07 Feb 2018)
(<https://www.fitchratings.com/site/re/10019302>)

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