

RATING ACTION COMMENTARY

Fitch Affirms Finlombarda at 'BBB'; Outlook Stable

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Fitch Ratings - Milan - 31 Oct 2024: Fitch Ratings has affirmed Finlombarda S.p.A.'s (FL) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'BBB' with Stable Outlooks and Short-Term Foreign-Currency IDR at 'F2'. A full list of rating actions is below.

The affirmation reflects our unchanged expectations that FL's financial performance and ratios will remain aligned with its 'bb' Standalone Credit Profile (SCP), and that the sponsor government would likely extend extraordinary support to FL if needed, considering FL's policy role and the regional broad control over it.

KEY RATING DRIVERS

Support Score Assessment 'Extremely likely'

We consider that extraordinary support from the Italian region of Lombardy to FL would be extremely likely in case of need, reflecting a support score of 40 (out of a maximum 60) under our Government-Related Entities (GRE) criteria. This reflects a combination of responsibility to support and incentive to support factors assessment as below.

Responsibility to Support

Decision Making and Oversight 'Very Strong'

FL is a public-sector entity and in-house provider of developmental financial services for the region of Lombardy, supporting the local economy. Lombardy fully owns FL, monitors its adherence to regional guidelines, and exerts extensive control over the company, from appointing the board of directors, approving annual reports, to more specific decisions such as the approval of new borrowing.

Precedents of Support 'Very Strong'

FL benefits from fee revenue from the region of Lombardy, which is calibrated to ensure its minimum profitability. We expect continued equity support to support FL's balance-sheet expansion if needed, as we believe in-house providers of quasi-governmental functions may be exempt from EU state aid rules.

Our assessment also considers guarantees from the region to facilitate borrowings from the European Investment Bank (EIB; AAA/Stable/F1+), which represents 33% of FL's financial debt at [end-2023](#). As per regional law, the new EUR250 million credit facility from the EIB would be assisted by the obligation of the region to increase FL's capital if needed to ensure timely debt repayments as per facility's maturity schedule.

Incentives to Support

Preservation of Government Policy Role 'Strong'

FL has a key public policy mandate from the region of Lombardy. Its gross loan portfolio has surpassed EUR500 million since 2022. FL has around 3,000 borrowers and while its lending activity could ultimately be carried out by other financial intermediaries that are largely present in Lombardy, reputational repercussions for the region would be more severe, because a default of FL would cast doubt on the region's ability to control its GREs.

A default also could disrupt the functioning of some regional roles, as FL is responsible for consultancy and screening services for the disbursement of EU funds to SMEs. At end-2023, FL managed about EUR685 million of EU funds (EUR650 million in 2022).

Contagion Risk 'Strong'

FL's default would have negative repercussions, especially for other regional GREs' market borrowing capacity, while the impact on the region would be somewhat mitigated by the availability of Cassa Depositi e Prestiti SpA (CDP; BBB/Positive/F2), lender of last resort for Italian local and regional governments. Support from the region could easily be channelled via advances on future grants or equity injections to avoid acceleration of the repayment of FL's outstanding debt, triggered by guarantees on EIB loans and cross-default clauses on loans and listed bonds.

Standalone Credit Profile

FL's 'bb' SCP reflects our expectations of stable financial performance over the next 12-to-18 months. It also reflects Fitch's expectation that the impaired loans ratio will remain below 4% in the medium term (2020-2023 average: 2.1%) and the gross debt to tangible equity ratio will stay around 2x (end-2023: 2.2x), based on FL's proven record of prudent growth, granular loan portfolio and decreasing non-loan assets. We assign FL's SCP using our Non-Bank Financial Institutions Rating Criteria. It is constrained by FL's small franchise and narrow business model.

Fitch expects FL's gross loan portfolio to remain fairly stable in 2024, and FL's profitability to remain weak in 2024. The latter is mainly due to FL's cost-plus and non-profit-maximising business model. Access to funding is underpinned by available credit lines from the EIB, but Fitch's assessment is constrained by a limited, albeit growing, record of accessing debt markets.

Derivation Summary

Fitch classifies FL as a GRE of Lombardy under its GRE Criteria and believes that the region would likely provide extraordinary support to FL to avoid its default, resulting in an overall support score of 40. Combined with our internal assessment of Lombardy and FL's 'bb' SCP, this leads to FL's 'BBB' IDR.

Short-Term Ratings

FL's Short-Term IDR is 'F2' is derived from our internal short-term assessment of Lombardy.

Debt Ratings

FL's senior unsecured debt long-term and short-term ratings are 'BBB' and 'F2', respectively.

Issuer Profile

FL has been Lombardy's in-house provider of development finance since 1971. This includes research and payment services commissioned by the region, management of the region's developmental funds, including EU funds, and acting as lender for regional enterprises and for local SMEs, promoting national and international development.

KEY ASSUMPTIONS

We expect FL's debt to hover around EUR0.5 billion in 2024, of which nearly a third is guaranteed by Lombardy. We expect FL to contract a new EIB line of up to EUR250 million by end-2024, which will be depleted by 2026. We expect the share of government-guaranteed debt to remain below 75%, as borrowing from market sources will complement EIB loans more than in the past to support FL's loan portfolio growth. We expect FL's loan portfolio to hover around EUR600 million by 2025.

RATING SENSITIVITIES**Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

A downward revision of Fitch's internal credit assessment of Lombardy could lead to a downgrade of FL's ratings.

Negative rating action could also stem from a deterioration in FL's SCP, if not offset by increased willingness of the regional government to provide extraordinary support. FL's SCP could be revised down due to its inability to sustain its corporate and SME lending franchise in Lombardy or on materially higher impaired loans ratio and leverage. However, this is not Fitch's base case over the next 12 to 18 months.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upward revision of Fitch's internal credit assessment of Lombardy could lead to an upgrade of FL's ratings if there was also an increased willingness of the regional government to provide extraordinary support.

An upward revision of Fitch's internal credit assessment of Lombardy could lead to an upgrade of FL's ratings if there was also an improvement in FL's SCP. A wider product offering and increased scale would be prerequisites for an upward revision of FL's SCP.

ESG Considerations

The highest level of ESG credit relevance is a score of '3'; unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Finlombarda S.p.A.	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
	LC LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
senior unsecured	LT	BBB	Affirmed	BBB
senior unsecured	ST	F2	Affirmed	F2

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FITCH RATINGS ANALYSTS**Giulia Gasparini**

Associate Director

Primary Rating Analyst

+39 02 9475 5780

giulia.gasparini@fitchratings.com

Fitch Ratings Ireland Limited Sede Secondaria Italiana

Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8 Milan 20123

Luca Vanzini

Director

Secondary Rating Analyst

+49 69 768076 143

luca.vanzini@fitchratings.com

Ethan Lee

Director

Committee Chairperson

+65 6796 2726

ethan.lee@fitchratings.com

MEDIA CONTACTS**Athos Larkou**

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

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APPLICABLE CRITERIA[Non-Bank Financial Institutions Rating Criteria \(pub. 17 Jan 2024\) \(including rating assumption sensitivity\)](#)[Government-Related Entities Rating Criteria \(pub. 09 Jul 2024\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Finlombarda S.p.A.

EU Issued, UK Endorsed

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