

Finlombarda S.p.A.

Update

Ratings

Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
Local Currency	
Long-Term IDR	BBB-

Outlooks

Foreign-Currency Long-Term Rating	Positive
Local-Currency Long-Term Rating	Positive

Financial Data

Finlombarda S.p.A.

	31 Dec 2017	31 Dec 2016
Interest Revenue (EURm)	8.6	10.3
Net Operating Income (EURm)	5.6	9.9
Loans (EURm)	90.4	53.2
Total Debt (EURm)	159.2	123.5
Total Assets (EURm)	438.2	395.5
Equity and Reserves (EURm)	255.9	258.5
Interest Rev. on Loans/Loans %	1.24	3.06
Net Interest Income/Earning Assets %	2.77	4.27
Impaired Loans/Total Loans %	10.34	17.69
Liquid Assets/Total Assets %	37.93	38.66
Loans/Equity and Reserves %	37.79	22.75

Source: Fitch Ratings, Fitch Solutions and Finlombarda S.p.A.

Key Rating Drivers

Status, Ownership and Control: Fitch Ratings views this rating factor as very strongly supporting the likelihood of the Region of Lombardy taking over Finlombarda S.p.A.'s (FL) liabilities, if need be to prevent FL's default. Such likelihood stems from FL's full ownership, which allows Lombardy to appoint FL's board of directors, approve its budgets and exert direction and control. Fitch's expectations are underpinned by cases of ordinate liquidation, such as ASAM, whose assets and liabilities Lombardy took over in 2018.

Support Track Record and Expectations: The very strong assessment of this rating factor reflects ongoing fee revenue from the region, calibrated to ensure FL's minimum profitability. As a financial intermediary, FL is subject to capital requirements; alerts come from the regulator if the equity falls towards the minimum to help maintain financial viability. Moreover, support is demonstrated by equity increases in 2014 and subsequent years if needed, as well as regional guarantees on borrowing from the EIB, which accounts for 50% of debt outstanding.

Socio-political Implications of Default: The moderate assessment of this rating factor reflects the limited size of FL's activity, which involves about a dozen bond investors, the EIB as the main bank lender and 3,000 borrowers. Fitch deems FL's lending activity as replaceable by other intermediaries. However, a default could disrupt the functioning of some regional responsibilities, as FL is responsible for paying the invoices from Lombardy's healthcare suppliers, and consultancy and screening services for the disbursement of EU funds to SMEs.

Financial Implications of Default: The strong assessment of this factor balances the perception of FL as Lombardy's proxy funding agency against our belief that a default would have limited impact on Lombardy's borrowing capacity. Regional guarantees on some FL borrowings are key in identifying the entity as proxy operator but Fitch believes Lombardy may be shielded from an FL default by the policy role of Cassa Depositi e Prestiti (BBB/Negative), which is required to fund local and regional governments regardless of FL's default.

Lending Growth: Fitch expects lending to double to EUR300 million by 2020, raising total assets to EUR0.5 billion, as FL broadens its activities to become a "lender of last resort" for regional enterprises and for local SMEs' national and international development.

Credit Quality Improvement: Growing lending and the reclassification as performing of certain investments towards Veneto Banca and Popolare di Vicenza that were bailed out by the national authorities in 2017 drives FL's credit quality recovery. Its NPL ratio fell to 6% in 2017, from 11% in 2016, when bond-lending (included in liquid securities in Fitch's appendices) is added to loans. FL's risk-scoring system helps maintain relatively good asset quality.

Modest Profitability: Fitch expects FL's interest margin to be around EUR10 million and net commissions from the region to be around EUR15 million over the medium term, with the latter roughly covering staff costs and impairment of loans. Fitch expects FL's ROE to be 1%.

Rating Sensitivities

Higher Guaranteed Debt: FL's IDR could be upgraded if the share of regional guaranteed debt increases beyond 75% over the medium term, in line with Fitch's GRE criteria.

Related Research

Fitch Revises Finlombarda's Outlook to Positive, Affirms BBB- (May 2018)

Finlombarda S.p.a. (July 2016)

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Appendix A

Finlombarda S.p.A.

(EURm)	2013	2014	2015	2016 ^a	2017
Profit and Loss					
Interest Revenue	9.1	10.5	10.5	10.3	8.6
Interest Expenditure	-0.8	-1.5	-1.2	-0.8	-0.5
Net Interest Income	8.3	9.0	9.3	9.5	8.1
Net Fees and Commissions	21.6	15.0	15.5	16.1	12.4
Other Operating Income	0.9	0.8	0.9	0.6	0.6
Personal Expenses	-17.0	-14.1	-13.8	-13.9	-12.3
Other Operating Expenses	-7.6	-5.3	-4.4	-2.4	-3.2
Net Gains and Losses on Securities and Trading	-	-	-	-	-
Net Operating Income/ (Loss)	6.2	5.4	7.5	9.9	5.6
Provisions	-2.4	-1.7	-1.5	-3.2	1.1
Operating Profit (loss) after Provisions	3.8	3.7	6.0	6.7	6.7
Other Non Operating Revenues/Expenses	0.1	2.0	-1.6	-3.5	-0.4
Contributions from State Budgets	-	-	-	-	-
Profit (loss) Before tax	3.9	5.7	4.4	3.2	6.3
Taxation	-1.9	-1.1	-1.5	-1.6	-2.2
Net Profit (Loss)	2.0	4.6	2.9	1.6	4.1
Balance Sheet					
Assets					
Cash and Cash Equivalents	0.0	0.0	0.0	0.0	0.0
Liquid Securities ^b	48.3	83.6	146.9	152.9	166.2
Deposits with Banks	146.2	28.6	39.9	16.4	36.3
Loans	96.5	96.1	73.8	53.2	90.4
Other Earning Assets	-	-	-	-	-
Long-term Investments	34.5	173.7	189.8	171.9	141.8
Fixed Assets	0.4	0.2	0.2	0.1	0.1
Intangible	0.1	0.1	0.0	0.0	0.0
Other Long-term Assets	-	3.9	1.2	1.0	3.4
Total Assets	326.0	386.2	451.8	395.5	438.2
Liabilities & Equity					
Customer Deposits	-	-	-	-	-
Deposits from Banks	-	-	-	-	-
Short-term Borrowing	-	-	-	-	-
Other Short-term Liabilities	9.3	11.5	31.3	9.6	21.1
Debt Maturing after 1 year	68.1	109.9	157.5	123.5	159.2
Other Long-term Funding	-	-	-	-	-
Other Provisions and Reserves	2.2	1.3	2.0	2.2	2.0
Other Long-term Liabilities	5.3	7.2	5.4	1.7	0.0
Equity	201.0	211.0	211.0	211.0	211.0
Reserves	40.1	45.3	44.6	47.5	44.9
Total Liabilities & Equity	326.0	386.2	451.8	395.5	438.2

Memo:

Guarantees and Other Contingent Liabilities	-	-	-	-	-
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Source: Fitch Ratings, Fitch Solutions and Finlombarda S.p.A.

^a Fitch maintains for 2016 the official data published by the issuer for that year instead of restated data as shown in the 2017 financial report

^b inclusive of bond lending (about EUR65 million in both 2016 and 2017)

Related Criteria

[Government-Related Entities Rating Criteria \(October 2018\)](#)

[International Local and Regional Governments Rating Criteria - Outside the United States \(April 2016\)](#)

Appendix B

Finlombarda S.p.A.

	2013	2014	2015	2016	2017
Ratios					
Performance					
Interest Revenue on Loans/Loans (%)	3.77	3.89	3.66	3.06	1.24
Interest Expense/Borrowings and Deposits (%)	1.17	1.36	0.76	0.65	0.31
Net Interest Income /Earning Assets (%)	2.85	4.32	3.57	4.27	2.77
Net Operating Income/Net interest Income and Other Oper. Revenue (%)	20.13	21.77	29.18	37.79	26.54
Net Operating Income/ Equity and Reserves (%)	2.57	2.11	2.93	3.83	2.19
Net Operating Income/ Total Assets (%)	1.9	1.4	1.66	2.5	1.28
Credit					
Growth of Total Assets (%)	18.5	18.47	16.99	-12.46	10.8
Growth of Loans (%)	26.71	-0.61	-18.75	-25.85	64.46
Impaired Loans/Total Loans (%)	7.13	8.91	13.37	17.69	10.34
Reserves for Impaired Loans/ Impaired Loans (%)	24.29	17.24	51.89	53.85	63
Loan Impairment Charges/ Loans (%)	2.14	1.33	1.89	0.17	0.10
Liquidity and Funding					
Long-term Debt/Total Equity and Reserves (%)	28.25	42.88	61.62	47.78	62.21
Liquid Assets/Total Assets (%)	14.82	21.65	32.51	38.66	37.93
Total Deposits and Debt/Total Assets (%)	20.89	28.46	34.86	31.23	36.33
Liquid Assets/Short term Deposits and Borrowing (%)	-	-	-	-	-
Capitalisation					
Equity and Reserves/Total Assets (%)	73.96	66.36	56.57	65.36	58.4
Net profit/Total Equity and Reserves (%)	0.83	1.79	1.13	0.62	1.6
Loans/Equity and Reserves (%)	40.73	38.08	31.03	22.75	37.79
Regulatory Capital Adequacy Ratio (%)	-	-	-	-	-

Source: Fitch Ratings, Fitch Solutions and Finlombarda S.p.A.

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