



## RATING ACTION COMMENTARY

# Fitch Downgrades Finlombarda to 'BBB-'; Outlook Stable

Fri 08 May, 2020 - 4:11 PM ET

Fitch Ratings - Milan - 08 May 2020: Fitch Ratings has downgraded Finlombarda's Long-Term Issuer Default Rating (IDR) to 'BBB-' from 'BBB'. The Outlook is Stable. A full list of rating actions is detailed below.

While Italian government-related entities' (GREs) most recently available data may not have indicated performance impairment, material changes in revenue and cost profiles are occurring across the sector and likely to worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or broadened. Fitch's ratings are forward-looking in nature, and we will monitor developments in the sector for their severity and duration, and incorporate revised qualitative and quantitative inputs based on performance expectations and assessment of key risks, including extraordinary support.

## KEY RATING DRIVERS

Following the recent downgrade of Italy's IDRs (see "Fitch Downgrades Italy to 'BBB-'; Outlook Stable" dated 28 April 2020 on [www.fitchratings.com](http://www.fitchratings.com)) we have downgraded Finlombarda's IDRs to reflect the entity's rating equalisation with Fitch's lower internal credit assessment of the Region of Lombardy.

Full rationale for the rating equalisation is outlined in the Rating Action Commentary on 8 April 2020 see "Fitch Upgrades Finlombarda to 'BBB'; Outlook Negative" on [www.fitchratings.com](http://www.fitchratings.com)).

## **DERIVATION SUMMARY**

Fitch classifies Finlombarda as a GRE of the Region of Lombardy under its GRE Criteria and believes that the region would provide extraordinary support to Finlombarda to avoid its default. Finlombarda's IDRs move in tandem with Fitch's internal assessment of the Region of Lombardy due to a substantial share of government-guaranteed debt in the entity's total debt. We expect the share to remain above 75%, a factor in itself triggering the rating equalisation while overriding the assessment of other GRE support factors.

Following the downgrade of Finlombarda its overall support score of 35, together with its standalone credit profile (SCP) of 'bb-' that is three notches below Lombardy's credit assessment, also results in a rating equalisation with the region's internal assessment as the SCP is now a rating driver.

## **KEY ASSUMPTIONS**

Fitch assumes that draw-down on Finlombarda's EMTN programme will double compared with the outstanding EUR50 million that is due for repayment in September 2022, but still below the maximum EUR200 million of allowed draw-down.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-An upward internal credit reassessment of the Region of Lombardy could lead to an upgrade of Finlombarda's ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-A downward internal credit reassessment of the Region of Lombardy could lead to a downgrade of Finlombarda's ratings.

-The share of regional guaranteed debt decreases below 75% and the SCP weakens to more than three notches away from our internal credit assessment of Lombardy while the overall support score remains unchanged at 35.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **LIQUIDITY AND DEBT STRUCTURE**

Liquidity generated by operations is underpinned by liquid assets of about EUR150 million in 2019, and is not expected to fall below EUR50 million-EUR100 million over the medium term.

Its EUR50 million bullet bond is due in 2022. It also has amortising loans from the EIB.

## **SUMMARY OF FINANCIAL ADJUSTMENTS**

None

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Finlombarda's ratings are linked to Fitch's internal assessment of the Region of Lombardy.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY/DEBT	RATING		
Finlombarda S.p.A.	LT IDR	BBB- ●	Downgrade
●	ST IDR	F3	Downgrade
●	LC LT IDR	BBB- ●	Downgrade
● senior unsecured	LT	BBB-	Downgrade
● senior unsecured	ST	F3	Downgrade

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**APPLICABLE CRITERIA**

[Rating Criteria for International Local and Regional Governments \(pub. 13 Sep 2019\) \(including rating assumption sensitivity\)](#)

[Government-Related Entities Rating Criteria \(pub. 13 Nov 2019\)](#)

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 27 Mar 2020\) \(including rating assumption sensitivity\)](#)

## **ADDITIONAL DISCLOSURES**

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## **ENDORSEMENT STATUS**

Finlombarda S.p.A.

EU Issued

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