

**Credit Opinion: Finlombarda SpA**

**Finlombarda SpA**

*Italy*

**Ratings**

<b>Category</b>	<b>Moody's Rating</b>
Outlook	Stable
Issuer Rating	Aa2

**Contacts**

<b>Analyst</b>	<b>Phone</b>
Francesco Soldi/Milan	39.02.9148.1100
Massimo Visconti/Milan	
Yves Lemay/New York	1.212.553.1653

**Key Indicators**

**Finlombarda SpA**

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008F</b>
Total assets (EUR million)	<b>60.7</b>	<b>196.6</b>	<b>203.2</b>	<b>207.2</b>
Managed funds (EUR million)	<b>512.8</b>	<b>589.7</b>	<b>690.8</b>	<b>782.0</b>
Surplus (deficit) of the year / intermediation margin (%)	<b>23.7</b>	<b>23.3</b>	<b>26.9</b>	<b>17.1</b>
Gearing (%) [1]	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>
Liabilities / total assets (%)	<b>8.8</b>	<b>3.6</b>	<b>4.0</b>	<b>3.7</b>
Current assets / current liabilities (x)	<b>11.6</b>	<b>29.3</b>	<b>26.7</b>	<b>29.2</b>
Return on equity (%) [2]	<b>5.7</b>	<b>2.1</b>	<b>2.9</b>	<b>2.3</b>

[1] Financial liabilities / equity (%). [2] Surplus (deficit) for the year / equity (%).

**Opinion**

**SUMMARY RATING RATIONALE**

The issuer rating of Aa2, with stable outlook, assigned to Finlombarda SpA (FL) reflects the application of Moody's rating methodology for government-related issuers. In accordance with this methodology, FL's ratings reflect a Baseline Credit Assessment (BCA) of 4 (on a scale of 1-21 where 1 represents the lowest credit risk) and a high likelihood of support from the Italian Region of Lombardy (Aa1, stable).

The BCA is underpinned primarily by FL's close operational link with the region - its unique shareholder - its robust financial fundamentals and prudent management. The BCA also takes into account Moody's expectation of a moderate increase in the company's risk exposure, as well as its corporate status and the dependence of its activities on their strategic role for Lombardy. The company is currently debt-free and strongly capitalised.

**Credit Strengths**

Credit strengths for FL include:

- Close operational integration into the regional government's institutions, as reflected in its ownership structure, public-policy mandate and governance
- Robust financial fundamentals, associated with a low risk exposure due to the nature of its activities

- The company is currently debt-free and strongly capitalised
- Prudent management approach, including risk-averse liquidity management

### **Credit Challenges**

Credit challenges for FL include:

- The business plan entails an increase of the company's risk exposure and, potentially, the activation of financial leverage
- Risks associated with its corporate status and the dependence of its activities on their strategic role for Lombardy, albeit mitigated by the region's interest in the company's operations

### **Rating Outlook**

The stable rating outlook reflects Moody's expectations that the company will be able to run efficiently its ordinary operations and will prudently manage the expected increase in its risk exposure, within a stable institutional framework defining its strategic role to and operational integration with the region.

### **What Could Change the Rating - Up**

Although unlikely in the near term, an upgrade in the Region of Lombardy's rating may prompt an upgrade of FL's rating.

### **What Could Change the Rating - Down**

FL's rating is sensitive to future movements in the region's credit quality, and its government ownership, role and support constitute fundamental rating drivers. Although unlikely, a deterioration of the company's role to and operational integration with the region may negatively affect its credit quality, as could deteriorating financial fundamentals and higher than expected increase in its risks exposure.

### **Issuer Profile**

FL is a joint stock company fully-owned by the Italian Region of Lombardy and acts as its financial arm. Its mission is to help promote the development of the regional economy, either directly or through management of regional/EU funds, and provide consultancy services primarily to the region.

### **DETAILED RATING CONSIDERATIONS**

**Institutional Framework** - Established in 1971 as a joint-stock company outside the regional budget, FL's ownership structure, public-policy mandate and governance clearly point to a strong operational link with the regional government. In compliance with Italian Law n.248/2006 and the 2007 National Financial Bill, FL provides in-house services exclusively for the Region of Lombardy. The region's interest in the company's operations is reflected in its regular oversight, although FL neither receives operating subsidies from the region nor enjoys special legal status. As a registered financial intermediary, pursuant to Art.107 of the Italian Banking Act, FL is subject to Bank of Italy's supervision and reporting requirements.

Its statute and the Regional Law n.30/2006 define the company's strategic role in promoting economic development initiatives in the regional territory through: (i) acquisition of shares - typically minority shares - in local enterprises, lending activity and provision of guarantees; (ii) promotion of public-private partnerships; and (iii) management of dedicated regional and EU funds. FL also provides consultancy services to the region for specific initiatives, including PFIs. FL derives financial means for its publicly led mission from active interests on its equity investments and commissions for consultancy services and management of EU/regional funds; the firm is also authorised to access new borrowing, even for lending purposes.

**Financial Position and Performance** - Although FL is not oriented towards profit maximisation, it enjoys robust financial fundamentals and performance. Furthermore, FL has a low risk profile due to the nature of its functions.

Realised accounts for the past three years show that FL has been able to manage the expansion of its budget and consolidate positive financial performance, reflecting a growing revenue stream and lean expenditure structure. The growth in active interest has been supported by the substantial increase in equity, after the two capital injections from the region in 2005-06. This combined with the progressive growth in the pool of regional and EU resources managed by FL off-balance sheets, helped sustain the growth of the intermediation margin. As of June 2008, FL managed about EUR 178 million in its own resources - mostly comprising equity - and EUR 508 million in regional and EU funds. FL's operating income has also benefited from growing consultancy service commissions. As a reflection of its strategic role to the region, FL's consultancy activities have recently expanded to include core

regional responsibilities.

Going forward, Moody's expects FL's financial fundamentals and performance to remain sound overall, supported by the continued strategic and financial commitment of the region. In particular, future financial performance is expected to be supported by the projected stability in the pool of regional resources managed off-balance sheet and the company's equity investments.

Moody's does not highlight significant in- and off-balance sheet financial risks. Moody's does not highlight significant risks potentially arising from ordinary operations; to date, the participation in local businesses, credits and guarantees have absorbed a negligible proportion of the company's budget. Through its majority-owned investment management company, Finlombarda Gestioni SGR SpA, FL promotes private-equity and venture-capital investments in the region and Mediterranean basin. In the past three years, the investment management company generated modest surpluses, which have been re-invested or earmarked to cover losses recorded in its start-up phase.

**Debt Profile and Liquidity** - The company is currently debt-free and strongly capitalised. Moody's regards the firm's liquidity management as conservative and generally risk-averse. To date, the company has adequately addressed key risks, including market, liquidity and operational risks. FL's portfolio is composed primarily of liquid or semi-liquid investments; FL's own resources are mostly deposited in bank accounts (59%) and floating-rate bonds issued by large Italian banks (22%), with the remainder invested in funds (14%) and other low-risk financial instruments (5%).

FL's equity has represented a source of untapped reserves for the company to actively manage to date. Going forward, FL plans to use its capital to promote development projects sponsored by the region. However, Moody's expects that the higher risk exposure due to the expansion of its activities will be gradual and prudently managed. The implementation of the biggest project in the pipeline - Made in Lombardy - will entail the use of a consistent proportion of the company's own resources, mostly bank account deposits, for lending purposes. However, Moody's does not expect that the higher exposure to credit risk will translate into a dramatic deterioration of FL's risk profile, also in view of the regional guarantee. The company also projects to activate financial leverage for lending purposes in the medium term. In this regard, Moody's understands that any future decisions on the company's use of financial leverage to finance its activities will receive implicit approval from the region.

**Governance and Management Factors** - FL's management structure and governance clearly point to a high degree of operational integration with the regional government, which is also evidenced by the regular oversight and coordination between the company's executives and the region's policymakers. Prudent operating and financial strategies have been accompanied by a culture of transparency and accountability. In Moody's view, continued prudent financial and risk management, combined with ongoing support from the regional government, will be core to supporting FL's sound financial fundamentals.

### **Extraordinary Support Considerations**

High support primarily reflects FL's institutional framework, which regulates its arm's-length nature and integration into the regional administration. FL performs its publicly-led mission under a mandate from and the direction of the regional government. High default dependence between FL and the regional government primarily reflects their close operational and financial links. In addition, FL generates revenues in Lombardy's territory, and is therefore exposed to business cycle fluctuations that might also influence the region's fiscal situation and debt servicing capacity.

### **ABOUT MOODY'S SUB-SOVEREIGN RATINGS**

#### **National and Global Scale Ratings**

Moody's assigns national scale ratings in certain local capital markets in which investors have found the global rating scale provides inadequate differentiation among credits or is inconsistent with a rating scale already in common use in the country. Moody's National Scale Ratings are opinions of the relative creditworthiness of issuers and issues within a particular country. While loss expectation will be an important differentiating factor in the ultimate rating assignment, it should be noted that loss expectation associated with National Scale Ratings can be expected to be significantly higher than apparently similar rating levels on Moody's global scale. Moody's National Scale Ratings rank issuers and issues in order of relative creditworthiness: higher ratings are associated with lower expected credit loss.

National Scale Ratings can be understood as a relative ranking of creditworthiness (including relevant external support) within a particular country. National Scale Ratings are not designed to be compared among countries; rather, they address relative credit risk within a given country. Use of National Scale Ratings by investors is only appropriate within that portion of a portfolio that is exposed to a given country's local market, taking into consideration the various risks implied by that country's foreign and local currency ratings. The Moody's Global Scale rating for issuers and issues in local currency allows investors to compare the issuer's/issue's creditworthiness to all others in the world, rather than merely in one country. It incorporates all risks relating to that country, including the potential volatility of the national economy.

## Country Ceilings for Foreign Currency Obligations

Moody's assigns a ceiling for foreign-currency bonds and notes to every country (or separate monetary area) in which there are rated obligors. The ceiling generally indicates the highest rating that can be assigned to a foreign-currency denominated security issued by an entity subject to the monetary sovereignty of that country or area. In most cases, the ceiling will be equivalent to the rating that is (or would be) assigned to foreign-currency denominated bonds of the government. Ratings that pierce the country ceiling may be permitted, however, for foreign-currency denominated securities benefiting from special characteristics that are judged to give them a lower risk of default than is indicated by the ceiling. Such characteristics may be intrinsic to the issuer and/or related to Moody's view regarding the government's likely policy actions during a foreign currency crisis.

## Baseline Credit Assessment

Moody's baseline credit assessment incorporates the Government Related Issuer's (GRI) intrinsic credit strength and accounts for all aspects of the entity's existing (or anticipated) activities, including benefits (such as regular subsidies or credit extension) and/or detriments associated with the government relationship. In effect, the baseline credit assessment reflects the likelihood that a GRI would require extraordinary support.

## Extraordinary Support

Extraordinary support is defined as action taken by a supporting government to prevent a default by a Government Related Issuer (GRI) and could take different forms, ranging from a formal guarantee to direct cash infusions to facilitating negotiations with lenders to enhance access to needed financing. Extraordinary support is described as either low (0% - 30%), medium (31% - 70%) or high (71% - 100%).

## Default Dependence

Default dependence reflects the likelihood that the credit profiles of two obligors may be imperfectly correlated. Such imperfect correlation, if present, has important diversifying effects which can change the joint-default outcome. Intuitively, if two obligors' default risks are imperfectly correlated, the risk that they would simultaneously default is smaller than the risk of either defaulting on its own.

In the application of joint-default analysis to GRIs, default dependence reflects the tendency of the GRI and the supporting government to be jointly susceptible to adverse circumstances leading to defaults. Since the capacity of the government to provide extraordinary support and prevent a default by a GRI is conditional on the solvency of both entities, the more highly dependent -- or correlated -- the two obligors' credit profiles, the lower the benefits achieved from joint support. In most cases, the close economic links and/or close intergovernmental fiscal arrangements between a GRI and its associated government result in a medium to high degree of default dependence.

Default dependence is described as either low (0% - 30%), medium (31% - 70%) or high (71% - 100%).

© Copyright 2008, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at [www.moody's.com](http://www.moody's.com) under the

