

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 IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

Finlombarda S.p.A.

	31 Dec 2016	31 Dec 2015
Interest revenue (EURm)	10.3	10.5
Net operating income (EURm)	9.9	7.5
Loans (EURm)	53.2	73.8
Total debt (EURm)	123.5	157.5
Total assets (EURm)	395.5	451.8
Equity and reserves (EURm)	258.5	255.6
Interest rev. on loans/loans (%)	3.06	3.66
Net interest income/earning assets (%)	4.27	3.57
Impaired loans/total loans (%)	17.69	13.37
Liquid assets/total assets (%)	38.66	32.51
Loans/equity and reserves (%)	22.75	31.03

Key Rating Drivers

Finlombarda Supports Regional SMEs: Finlombarda S.p.A. is the Region of Lombardy's in-house provider of developmental financial services, research, and infrastructure of public interest – either through direct lending or the provision of regional/EU funds. It is fully owned by the region and excluded from bankruptcy by the evolving national legislation on companies of local and regional governments.

Full Regional Control: Lombardy appoints the board of directors and hence approves Finlombarda's financial statements while retaining control over strategic decisions. Finlombarda is registered as a financial intermediary according to Italian banking law and subject to some prudential regulations/disclosure duties from the Bank of Italy.

Moderate Integration: Flexibility of fees from the region for consultancy services and management of funds allows for the prevention of income losses as Finlombarda does not receive regional transfers. Finlombarda is broadening its activities to become a "lender of last resort" for enterprises using regional/EU funds, as well as to mitigate market access conditions for SMEs' while promoting their national and international development.

Guarantees Underpin Strategic Role: Finlombarda is the sole financial intermediary of Lombardy and key to the implementation of regional policy for economic development. The limited size of Finlombarda's financial debt relative to the regional budget (1.5%) means extraordinary support from the region would not be a major hurdle in case of need. The guarantees on Finlombarda's loans highlight the issuer's strategic importance to the region.

Lending Expansion: Fitch Ratings' base-case scenario envisages lending to SMEs growing to EUR300 million in the medium term from about EUR150 million in 2015-2016. Interest revenue close to EUR10 million and net commission of around EUR16 million cover staff costs and the impairment of loans, keeping Finlombarda's profitability close to the EUR3 million annual average in 2012-2016 (EUR1.6 million in 2016).

Weakening Credit Quality: Finlombarda's credit portfolio has deteriorated over the last couple of years with NPLs at nearly 9% of total loans (including lending via SME bond subscription), up from 4% in 2013. The ratio is close to the regional banking sector average of 11% and somewhat better than the 18% national level. Fitch expects Finlombarda's risk monitoring to help it maintain relatively good asset quality despite the growing loan and bond portfolio.

Debt Rising: Finlombarda's debt of nearly EUR125 million in 2016 should grow to EUR0.5 billion over the medium term as EIB loans are drawn down and capital markets are tapped following completion of the EUR200 million EMTN programme. Total assets could therefore rise to EUR1 billion by end-2018 under Fitch's base-case scenario, from nearly EUR0.5 billion currently.

Rating Sensitivities

Credit Linked to Sponsor: Finlombarda is credit linked to Lombardy under Fitch's *Rating of Public-Sector Entities – Outside the United States* criteria top down-approach. Hence changes in the region's creditworthiness would be reflected in Finlombarda's ratings. More formalised support, such as an explicit guarantee on all financial liabilities, could trigger an upgrade.

Support Dilution Ratings Negative: Diminished integration with Lombardy, as indicated by an increase in non-guaranteed financial debt to 50% of the total or a change in the statutes or legislative framework weakening Finlombarda's links with the region, could result in a downgrade.

Related Research

[Fitch Downgrades Finlombarda to 'BBB-'; Outlook Stable \(May 2017\)](#)
[Fitch Rates Finlombarda's EMTN Programme at 'BBB' \(February 2017\)](#)
[Finlombarda S.p.A. \(July 2016\)](#)

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Appendix A

Finlombarda S.p.A.

(EURm)	2012	2013	2014	2015	2016
Profit and loss					
Interest revenue	6.6	9.1	10.5	10.5	10.3
Interest expenditure	-0.1	-0.8	-1.5	-1.2	-0.8
Net interest income	6.5	8.3	9.0	9.3	9.5
Net fees and commissions	16.4	21.6	15.0	15.5	16.1
Other operating income	1.7	0.9	0.8	0.9	0.6
Personnel expenses	-10.8	-17.0	-14.1	-13.8	-13.9
Other operating expenses	-4.1	-7.6	-5.3	-4.4	-2.4
Net gains and losses on securities and trading	0.0	0.0	0.0	0.0	0.0
Net operating income (loss)	9.7	6.2	5.4	7.5	9.9
Provisions	-1.6	-2.4	-1.7	-1.5	-3.2
Operating profit (loss) after provisions	8.1	3.8	3.7	6.0	6.7
Other non-operating revenues/expenses	0.5	0.1	2.0	-1.6	-3.5
Contributions from state budgets	-	-	-	-	-
Profit (loss) before tax	8.6	3.9	5.7	4.4	3.2
Taxation	-3.1	-1.9	-1.1	-1.5	-1.6
Net profit (loss)	5.5	2.0	4.6	2.9	1.6
Balance sheet					
Assets					
Cash and cash equivalents	0.0	0.0	0.0	0.0	0.0
Liquid securities	50.8	48.3	83.6	146.9	152.9
Deposits with banks	146.7	146.2	28.6	39.9	16.4
Loans	77.5	96.5	96.1	73.8	53.2
Other earning assets	-	-	-	-	-
Long-term investments	0.0	34.5	173.7	189.8	171.9
Fixed assets	0.1	0.4	0.2	0.2	0.1
Intangible	0.0	0.1	0.1	0.0	0.0
Other long-term assets	-	-	3.9	1.2	1.0
Total assets	275.1	326.0	386.2	451.8	395.5
Liabilities & equity					
Customer deposits	-	-	-	-	-
Deposits from banks	-	-	-	-	-
Short-term borrowing	-	-	-	-	-
Other short-term liabilities	5.7	9.3	11.5	31.3	9.6
Debt maturing after 1 year	51.7	68.1	109.9	157.5	123.5
Other long-term funding	-	-	-	-	-
Other provisions and reserves	1.1	2.2	1.3	2.0	2.2
Other long-term liabilities	1.6	5.3	7.2	5.4	1.7
Equity	170.3	201.0	211.0	211.0	211.0
Reserves	44.7	40.1	45.3	44.6	47.5
Total liabilities & equity	275.1	326.0	386.2	451.8	395.5
Memo:					
Guarantees and other contingent liabilities	-	-	-	-	-
Source: Issuer and Fitch calculations					

Related Criteria

[Rating of Public-Sector Entities – Outside the United States \(February 2016\)](#)

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

Appendix B

Finlombarda S.p.A.

	2012	2013	2014	2015	2016
Ratios					
Performance					
Interest revenue on loans/loans (%)	2.32	3.77	3.89	3.66	3.06
Interest expense/borrowings and deposits (%)	0.19	1.17	1.36	0.76	0.65
Net interest income /earning assets (%)	2.36	2.85	4.32	3.57	4.27
Net operating income/net interest income and other operating revenue (%)	39.43	20.13	21.77	29.18	37.79
Net operating income/equity and reserves (%)	4.51	2.57	2.11	2.93	3.83
Net operating income/total assets (%)	3.53	1.9	1.4	1.66	2.5
Credit					
Growth of total assets (%)	27.83	18.5	18.47	16.99	-12.46
Growth of loans (%)	520	26.71	-0.61	-18.75	-25.85
Impaired loans/total loans (%)*	1.16	7.13	8.91	13.37	17.69
Reserves for impaired loans/impaired loans (%)	0	24.29	17.24	51.89	53.85
Loan impairment charges/loans (%)	1.55	2.14	1.33	1.89	0.17
Liquidity and funding					
Long-term debt/total equity and reserves (%)	24.05	28.25	42.88	61.62	47.78
Liquid assets/total assets (%)	18.47	14.82	21.65	32.51	38.66
Total deposits and debt/total assets (%)	18.79	20.89	28.46	34.86	31.23
Liquid assets/short-term deposits and borrowing (%)	-	-	-	-	-
Capitalisation					
Equity and reserves/total assets (%)	78.15	73.96	66.36	56.57	65.36
Net profit/total equity and reserves (%)	2.56	0.83	1.79	1.13	0.62
Loans/equity and reserves (%)	36.05	40.73	38.08	31.03	22.75
Regulatory capital adequacy ratio (%)	-	-	-	-	-

* Lending does not include subscription of bond issuances by SMEs, which is accounted for in liquid securities (about EUR60m in 2016).

n.a.: not available

Source: Issuer and Fitch calculations

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