FITCH AFFIRMS ITALIAN AUTONOMOUS PROVINCE OF TRENTO AT 'A'; STABLE OUTLOOK

Fitch Ratings-Milan/London-10 July 2015: Fitch Ratings has affirmed the Autonomous Province of Trento's (PAT) Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A' and Short-term foreign currency IDR at 'F1'. The Outlook is Stable.

Fitch has also affirmed PAT's credit-linked notes, as follows:

-University of Trento's EUR43.7m amortising fixed-rate notes due in December 2015 (ISIN: IT0003976971): Long-term local currency rating affirmed at 'A-'
-Garda Trentino Fiere's (GDF) EUR15m bullet fixed-rate notes (now Patrimonio del Trentino's (PdT) notes following the incorporation of GDF into PDT in December 2011) due in 2016 (ISIN: IT0004051436): Long-term local currency rating affirmed at 'A-'
- PdT's EUR43m floating-rate bullet notes due in 2017 (ISIN: IT0005005456): Long-term local currency rating affirmed at 'A'

The affirmation reflects PAT's low debt amid an ongoing strong budgetary performance and the sound management operations which help maintain a balanced budget.

KEY RATING DRIVERS
Institutional framework (Neutral): PAT is eligible to be rated above the sovereign by virtue of its institutional strength and high degree of financial autonomy. PAT's special autonomous status entitles it to receive fixed shares of major national taxes, ranging from 90% personal income tax (PIT) and corporate income tax (CIT) to 80% of VAT. This underpins the province's tax revenue resilience and limits dependence on state transfers. The diversified set of responsibilities supports budgetary flexibility. Contributions to national consolidation efforts are subject to bilateral agreements and from 2019 will account for about EUR400m, or 0.5% of Italy's interest burden. However, the leeway of the maximum two notches above the 'BBB+' sovereign rating captures possible interferences by the state in case of macroeconomic or financial stress of sovereign finances and subsequent risk of weakening predictability of intergovernmental relations.

Debt and liquidity (Strength): PAT's direct risk is fully sustainable at one year of the current balance. Fitch expects it to remain within one-third of the province's current revenue. PAT is direct risk-free, but Fitch reclassifies the EUR1.5bn debt issued by Cassa del Trentino (CdT) as direct risk. The debt of other subsidiaries and municipalities is subsidised by PAT. This accounts for about EUR0.7bn and could halve by 2015 as PAT funds debt redemption ahead of schedule with its reserves. PAT is committed to maintaining total public sector debt at below 10% of local GDP.

Fiscal performance (Strength): Fitch expects PAT to continue to report a strong financial performance in the medium term, with a high operating margin of about 30%, fully funding its EUR1.6bn capital spending. The province benefits from high capital expenditure flexibility, with recurring capex of about EUR400m, or 25% of the total. Fitch expects PAT's overall budget to remain balanced even in a stressed scenario in which the operating margin halves to 15% as a result of stagnant revenues and/or a higher than expected contribution to the reduction of the national deficit. High discretionary capex allows for postponement of capital projects if required.

Management (Strength): PAT is among the most sophisticated subnationals. Its operations are prudent, with minimum discrepancies between forecasts and actual result underpinned by a close monitoring of the taxpayers' database. PAT sets a prudent debt policy for its municipalities and subsidiaries while building up reserves for debt repayment limiting re-financing risk.

Economy(Strength): PAT is one of the wealthiest sub-nationals in Italy and Europe with GDP per capita of about EUR34,000, or nearly 30% above the EU average, with a stable employment rate of 66%. A good and improving level of infrastructure as well as cuts in business tax for firms supporting job creation underpins a strong mood among local SMEs. PAT's economy grew 0.3% in 2014 while strengthening towards 1% in 2015 on the back of recovering internal consumption, public spending for infrastructure and export, including agricultural produce.

CREDIT-LINKED NOTES

The notes were issued against annual contributions granted by PAT to public sector entities pursuant to provincial law. The entities have mandated PAT, through a delegation of debt under Italian Civil Code rules, to retain the contributions and irrevocably use them to service the notes when due. With the acceptance of the debt delegation, PAT has undertaken a direct obligation towards the noteholders to pay principal and interest (within the limit of the contributions granted). A failure to do so would trigger the right of the noteholders to claim the amounts owed to them directly against the province without the need to request payments to the entities first. The province has undertaken an 'impegno di spesa pluriennale' (multi-annual fixed expense undertaking), implying an irrevocable commitment of the province on a multi-annual basis.

The debt delegation does not involve a discharge of the entities from their obligations under the notes. Therefore, should PAT fail to make any payments, the entities would still be bound to make payments under the notes.

PAT does not explicitly recognise the contributions granted to the entities, and hence the instalments payable to noteholders, as ranking equally with PAT's own direct debt obligations. In Fitch's view, this implies a subordination of the notes to PAT's senior unsecured debt, with the exception of PdT's EUR43m floating-rate bullet notes due in 2017 (ISIN:IT0005005456) whose rating is equalised with that of PAT in light of an unconditional, irrevocable and first demand guarantee.

RATING SENSITIVITIES

Sovereign Trends: PAT's IDR moves in tandem with that of Italy due to the compression exerted by the sovereign ratings on PAT's standalone profile. A downgrade or upgrade of the Republic of Italy would likely therefore translate into a downgrade or upgrade of PAT.

Additional Rating Triggers: An upgrade to three notches from the current two above the sovereign could stem from a sustainable macroeconomic environment providing evidence of stability and therefore predictability of inter-governmental relations. A downgrade could be triggered by unfavourable changes in PAT's statute of autonomy or a substantial weakening of the financial profile of the province.

As the ratings of the notes are credit-linked to those of PAT, any movement in PAT's ratings will be reflected by those on the bonds.

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Applicable Criteria
International Local and Regional Governments Rating Criteria (pub. 18 May 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865254
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015