

Trento, Autonomous Province of (/gws/en/esp/issr/80442589)**Fitch Affirms Italian Autonomous Province of Trento at 'A-'; Outlook Stable**

Fitch Ratings-Milan-01 June 2018: Fitch Ratings has affirmed the Autonomous Province of Trento's (PAT) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-' with Stable Outlook and Short-Term Foreign-Currency IDR at 'F1'.

The affirmation reflects our expectation that PAT's operating margin will hover around 25% of revenue, providing ample coverage for the servicing requirements of Cassa del Trentino (CdT), PAT's debt-funding agency, amid ongoing institutional strength provided by the constitutional recognised autonomy in a context of high socio-economic wealth indicators. The Stable Outlook mirrors that on Italy as PAT's standalone profile is partly constrained by Italy's 'BBB' rating.

KEY RATING DRIVERS**Fiscal Performance: Strength /Stable**

PAT recorded an operating surplus of nearly EUR1,1 billion in 2017, or about 25% of operating revenue according to preliminary data, in line with Fitch's expectations for 2017-2020. The decline from EUR1,4 billion in 2013-2016 is attributable to accounting changes and natural increase in opex after remaining stable at EUR2.8 billion during 2010-2015, as well as slower revenue growth contained by tax breaks to accompany the recovery of local consumption.

PAT's tax-rate raising potential accounts for nearly 10% of its budget, which Fitch considers to be relatively flexible. This is underpinned by the share of capex to total spending set to hover around 30% over the medium term, as well as a diversified set of responsibilities. Healthcare accounts for a limited 30% of opex versus nearly 75% for Italian regions with ordinary statute, while the EU2,100 per capita expenditure remains 15% higher than national average.

Debt & Liquidity: Strength/Stable

Fitch expects PAT's financial debt to remain stable at around EUR1.5 billion, or about one-third of revenue and about one year of the current balance when considering PAT's direct risk, i.e. tax supported debt of municipalities and companies net of liquidity.

PAT's liquidity rose to EUR1.5 billion at the end of 2017 from an average EUR800 million in the previous four years, boosted by the collection of old receivables . Fitch expects it to decline again over the medium term as the clean-up of spending commitments (EUR1.7 billion) will gradually absorb the buffer. On the back of relatively high tax compliance, Fitch expects PAT to maintain strong liquidity reserves, which includes about EUR300 million forecast liquidity held by CdT.

Management: Strength/Stable

PAT's traditionally conservative management has led to it outperforming budgets, especially on the revenue side, and CdT's fixed rate borrowing matching PAT's annuities. Fitch expects the province to restate the fund balance by 2018, replenishing the EUR300 million deficit posted at end-2016 following a rescheduling of receivables towards municipalities and provincial companies amid new accounting rules.

Strict control of PAT's main government-related entities, including the real estate company Patrimonio Trentino (BBB+/Stable), the transport company Trentino Trasporti (BBB+/Stable) and the healthcare unit help the revenue/spending match.

Economy: Strength/Stable

PAT is a wealthy province by international standards, with GDP per capita of nearly EUR35,000, or about 25% above the EU average and an employment rate of 68%, matching the EU average. PAT's countercyclical economic policies has contributed to relatively steady 0.5% annual average growth of the employment base, which increased to 235,000 workers over 2008-2017.

The province's EUR19 billion GDP grew by about 1.5% in 2017, driven by a network of about 40,000 predominantly SMEs. Tourism, trade and corporate and social services underpin future growth, which Fitch expects at about 1% per year in 2018-2020, somewhat held back by a relatively high level (19%) of non-performing loans.

Institutional Framework: Neutral/Stable

Fitch assesses Italian inter-governmental relations as neutral for PAT. 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 shares of national taxes, ranging from 90% of personal income tax and corporate income tax to 80% and VAT. This underpins the region's tax revenue resilience and limits dependence on state transfers, which account for 1% of revenue.

PAT's diversified set of responsibilities supports budgetary flexibility and

contributions to national consolidation efforts are subject to bilateral agreement. However, the maximum two-notch leeway 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

RATING SENSITIVITIES

Any rating action on Italy will be mirrored in PAT's ratings in light of the rating constraint. A prolonged economic downturn leading to a sharp deterioration of the operating margin on a sustained basis could result in a multi-notch weakening of the region's standalone assessment and therefore a downgrade of the IDR.

SUMMARY OF FINANCIAL STATEMENT ADJUSTMENTS

Debt subsidised by the state removed from direct debt and placed in Other Fitch reclassified debt

DATE OF RELEVANT COMMITTEE

31 May 2018

Trento, Autonomous Province of

----Short Term Issuer Default Rating; Affirmed; F1

----Local Currency Long Term Issuer Default Rating; Affirmed; A-; RO:Sta

----Long Term Issuer Default Rating; Affirmed; A-; RO:Sta

Contacts:

Primary Rating Analyst

Raffaele Carnevale,

Senior Director

+39 02 87 90 87 203

Fitch Italia S.P.A.

Via Morigi, 6

Milan 20123

Secondary Rating Analyst

Chiaramaria Mozzi,

Associate Director

+39 02 879087 231

Fitch Italia S.P.A.

Via Morigi, 6

Milan 20123

Committee Chairperson

Vladimir Redkin,
Senior Director
+7 495 956 2405

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email:
athos.larkou@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (<https://www.fitchratings.com/site/re/878660>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(<https://www.fitchratings.com/site/dodd-frank-disclosure/10032999>)

Solicitation Status (<https://www.fitchratings.com/site/pr/10032999#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings) ([HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM (<https://www.fitchratings.com/site/home>). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory) (<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax:

(212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named

for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory> (<https://www.fitchratings.com/site/regulatory>)), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more (<https://www.thefitchgroup.com/site/policies>).

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.