MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Italian sub-sovereign ratings following sovereign downgrade

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Milan, July 16, 2012 -- Moody's Investors Service has today downgraded the long-term issuer and debt ratings of 23 Italian sub-sovereign entities, including regional and local governments (RLGs) as well as two associated entities. The downgrades were prompted by the weakening of the Italian government's credit profile, as captured by Moody's recent downgrade of Italy's government bond rating to Baa2 from A3. For full details please refer to the Sovereign press release (http://www.moodys.com/research/Moodys-downgrades-Italys-government-bond-rating-to-Baa2-from-A3--PR_250567).

Further to today's action, the outlooks on Italian sub-sovereign ratings remain negative in line with the outlook on the sovereign rating.

RATINGS RATIONALE

The deterioration in Italy's sovereign creditworthiness has affected Italian sub-sovereign entities to varying degrees. For full details of the correlation between sub-sovereign and sovereign credit risk, please refer to Moody's Special Comment published on 15 February (http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_139829).

The centralised architecture of the local public sector in Italy establishes close operational and financial linkages between the national and peripheral governments. Although this is well-established and designed to ensure the stability of the RLG finances, the institutional framework does not grant RLGs sufficient autonomy to withstand a deterioration of the sovereign rating. RLGs are contributing to Italy's fiscal consolidation through fiscal tightening measures imposed by the central government. Lower state resources and stricter budgetary restraints are in turn resulting in increased budgetary rigidity and worsened budgetary performance.

Moody's has today downgraded sub-sovereign issuers that were previously positioned within the A1-Baa1 rating range by two rating notches, mirroring the change in the sovereign rating. Conversely, sub-sovereign ratings that were previously positioned at Baa2 and Baa3 have been lowered by one rating notch to Baa3 and Ba1, respectively, to reflect greater tolerance of lower ratings to sovereign credit deterioration.

Further to today's action, Italian sub-sovereign ratings can continue to be grouped as follows, although the composition of each group has shifted: (1) issuers with ratings above that of the sovereign, (2) issuers rated at the sovereign level, and (3) issuers rated below the sovereign.

A detailed list of the issuers and ratings affected by this rating action is provided further below.

- ENTITIES RATED ABOVE THE SOVEREIGN

Moody's has downgraded the entities in this group by two rating notches. Entities in this group include the Autonomous Province of Bolzano, the Autonomous Province of Trento and its financial company Cassa del Trentino, and the Region of Lombardy. For full detail of the analytical considerations explaining Trento's and Bolzano's credit profile, please refer to our dedicated Issuer Comment, published on 4 April (http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_140694).

Bolzano and Trento were downgraded to A3 from A1, and remain rated two notches above Italy's Baa2 sovereign rating. Key features supporting their higher credit quality include: (i) their statutory independence, which provides a greater degree of financial and legislative autonomy and is expected to continue insulating them from the weakening sovereign environment; (ii) their exceptionally strong fiscal positions and budgetary flexibility, which provides them with the scope to implement large-scale fiscal adjustments; and (iii) their very low exposure to financial market dislocations. At the same time, Cassa del Trentino's A1 rating was downgraded to A3 with a negative outlook, mirroring the action on the Autonomous Province of Trento.

Lombardy was downgraded to Baa1 from A2, and remains rated one notch above Italy's Baa2 sovereign rating. Unlike the two autonomous provinces, Lombardy lacks special constitutional status, and as such it is not insulated from financial exposure to the sovereign. However, it benefits from Italy's largest and most diversified economic base, generating about 20% of national GDP. Furthermore, its large budget and fiscal flexibility, combined with low debt, enable it to implement large-scale fiscal adjustments in response to budgetary restraints.

- ENTITIES RATED AT THE SOVEREIGN LEVEL

Moody's has downgraded the entities in this group to Baa2 -- the same level as the sovereign rating -- from A3. This group comprises seven regions, three cities and one government-related issuer (Finlombarda).

Moody's does not view these entities as having special characteristics that could support ratings higher than that of the sovereign. The tight financial and operational linkages between the state and these RLGs leads to comparable levels of credit risk. Although these entities generally display medium-to-large economic bases, good financials, and low-to-moderate contingent liabilities, they remain dependent on state transfers and central government's decisions affecting their finances. The downgrade of Lombardy's financial company Finlombarda to Baa2 reflects Moody's assessment of the degree of subordination to its sole shareholder, Lombardy, which is rated one notch above at Baa1.

This group also includes the state-backed issuances of the regions of Umbria and Sicily, which are fully serviced by the central government and remain aligned to the sovereign rating.

- ENTITIES RATED BELOW THE SOVEREIGN

Moody's has downgraded entities in this group by one or two notches to reflect their tight budgetary position and high debt, including contingent liabilities, and to preserve the ordinal ranking of their credit quality relative to the sovereign. The group includes six regions and two cities.

The Regions of Abruzzo and Piedmont were downgraded by two notches to Baa3 from Baa1 to reflect their tight budgets, including cash flows, and moderate-to-high debt. The City of Civitavecchia was also downgraded to Baa3 from Baa1 to reflect its weak budgetary position and growing debt.

The Regions of Lazio, Campania, Calabria and Molise were downgraded by one notch to Baa3 from Baa2. These issuers feature low capacity to withstand a deteriorating operating environment and to face budgetary restraints, in light of their tight budgets, high debt and contingent liabilities.

The one-notch downgrade of the City of Naples to Ba1 from Baa3 reflects Moody's assessment of Naples' fragile budgetary position, high debt and exposure to financial risks off-balance sheet. Naples is particularly exposed to the pressure arising from budgetary restraints imposed by the central government, given its high dependence on state resources and the systemic pressure stemming from its weak and demanding socio-economic environment.

WHAT COULD CHANGE THE RATINGS UP/DOWN

The negative outlooks on Italian sub-sovereigns mirror the negative outlook on Italy's sovereign rating and reflect systemic pressure. Italian sub-sovereign ratings are likely to follow the trajectory of Italy's government rating. An imminent deterioration of a given RLG's financial profile and its ability to service its debt obligations would also trigger a downward rating action.

A stabilisation of the outlooks or an upgrade of Italian sub-sovereign ratings will require a stabilisation or upgrade of the sovereign rating, or evidence of a given RLG's capacity to display comparatively stronger credit fundamentals and ability to withstand the deterioration of the operating environment.

RATINGS AFFECTED

- ENTITIES RATED ABOVE THE SOVEREIGN

- Autonomous Province of Bolzano: issuer rating downgraded to A3, with negative outlook, from A1

- Autonomous Province of Trento: issuer rating downgraded to A3, with negative outlook, from A1

- Region of Lombardy: issuer and debt ratings downgraded to Baa1, with negative outlook, from A2

- Cassa del Trentino SpA: issuer and debt ratings downgraded to A3, with negative outlook, from A1

- ENTITIES RATED AT THE SOVEREIGN LEVEL

- Region of Basilicata: issuer rating downgraded to Baa2, with negative outlook, from A3

- Region of Liguria: debt rating downgraded to Baa2, with negative outlook, from A3

- Region of Umbria: issuer and debt ratings downgraded to Baa2, with negative outlook, from A3; senior secured debt rating downgraded to Baa2 from A3

- Region of Veneto: issuer and debt ratings downgraded to Baa2, with negative outlook, from A3

- Region of Puglia: debt rating downgraded to Baa2, with negative outlook, from A3

- Region of Sardinia: debt rating downgraded to Baa2, with negative outlook, from A3

- Region of Sicily: issuer and debt ratings downgraded to Baa2, with negative outlook, from A3; senior secured debt rating downgraded to Baa2 from A3

- City of Milan: issuer and debt ratings downgraded to Baa2, with negative outlook, from A3

- City of Siena: issuer rating downgraded to Baa2, with negative outlook, from A3

- City of Venice: issuer and debt ratings downgraded to Baa2, with negative outlook, from A3

- Finlombarda SpA: issuer rating downgraded to Baa2, with negative outlook, from A3

- ENTITIES RATED BELOW THE SOVEREIGN

- Region of Abruzzo: issuer and debt ratings downgraded to Baa3, with negative outlook, from Baa1

- Region of Calabria: issuer rating downgraded to Baa3, with negative outlook, from Baa2

- Region of Campania: issuer and debt ratings downgraded to Baa3, with negative outlook, from Baa2

- Region of Lazio: debt rating downgraded to Baa3, with negative outlook, from Baa2

- Region of Molise: issuer and debt ratings downgraded to Baa3, with negative outlook, from Baa2

- Region of Piedmont: issuer and debt ratings downgraded to Baa3, with negative outlook, from Baa1

- City of Civitavecchia: issuer and debt ratings downgraded to Baa3, with negative outlook, from Baa1

- City of Naples: debt rating downgraded to Ba1, with negative outlook, from Baa3

RATING METHODOLOGIES USED

The principal methodologies used in rating Italian RLGs were Regional and Local Governments Outside the US published in May 2008, and The Application of Joint Default Analysis to Regional and Local Governments published in December 2008. The principal methodology used in rating Italian GRIs was Government-Related Issuers: Methodology Update published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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