

## Fitch Affirms Italy's Confidi's IDRs; Lowers IFS Ratings to Equalise with IDRs

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Fitch Ratings-London/Milan-12 February 2008: Fitch Ratings has today affirmed the Long- and Short-term Issuer Default ratings (IDR) of five Italian confidi, as listed below. The Outlooks for the Long-term IDRs remain Stable. At the same time, the agency has downgraded their Insurer Financial Strength (IFS) ratings by one notch to equalise them with their respective Long-term IDRs. The Outlooks for the IFS ratings are Stable.

### Artigianfidi Varese (AV):

Long-term IDR: affirmed at 'BB+'; Outlook Stable

Short-term IDR: affirmed at 'B'

IFS lowered to 'BB+' from 'BBB-' (BBB minus); Outlook Stable

### Eurofidi:

Long-term IDR: affirmed at 'BBB+'; Outlook Stable

Short-term IDR: affirmed at 'F2'

IFS lowered to 'BBB+' from 'A-' (A minus); Outlook Stable

### Federfidi Lombardia (FL):

Long-term IDR: affirmed at 'BBB+'; Outlook Stable

Short-term IDR: affirmed at 'F2'

IFS lowered to 'BBB+' from 'A-' (A minus); Outlook Stable

### NeaFidi - Societa Cooperativa di Garanzia Collettiva Fidi (Nea):

Long-term IDR: affirmed at 'BB+'; Outlook Stable

Short-term IDR: affirmed at 'B'

IFS lowered to 'BB+' from 'BBB-' (BBB minus); Outlook Stable

### Unionfidi Piemonte (UPI):

Long-term IDR: affirmed at 'BB+'; Outlook Stable

Short-term IDR: affirmed at 'B'

IFS lowered to 'BB+' from 'BBB-' (BBB minus); Outlook Stable

Italy's confidi are specialist credit guarantors. The IFS ratings assigned reflect both their ability to meet these obligations according to the terms of the guarantee contracts and expected recoveries received by claimants. The lowering of the IFS ratings to equalise them with their respective Long-term IDRs reflects Fitch's view that there is no clear differentiation between the prospective recovery by claimants under guarantees and recovery under other potential obligations. This partly reflects recent changes in the sector, including a legislative change that allows the confidi to classify as equity certain categories of subsidies and contributions received in the past from public and private entities. These contributions have to date been earmarked to cover specific types of guarantees and have been considered by Fitch to be effective collateral specifically covering the guarantees. In addition, most confidi have included credit risk mitigation in their guarantee agreements with partner banks, whereby the amounts banks can receive from the confidi for credit losses are capped.

Fitch considers the overall changes in the confidi sector positive, particularly the planned regulatory transformation of the confidi rated by Fitch into financial institutions under Art. 107 of the Italian Banking Act regulated by Banca d'Italia.

The ratings of AV reflect its small size, modest profitability and higher problem guarantees relative to total outstanding guarantees compared with rated peers. The ratings also take into account stronger capital ratios than for its peers despite weak internal capital generation and more conservative business expansion, as well as a track record in carrying out operations unadventurously and progress in improving risk management tools and procedures. AV's small size gives it only a limited possibility of an upgrade. Stronger profitability, better asset quality and substantially higher capitalisation might assist. Negative pressure on the ratings would derive from any substantial deterioration in asset quality or capitalisation. AV is a cooperative set up in Varese in northern Italy in 1996. Its members are small, local artisan companies, to which it provides credit guarantees.

Eurofidi's ratings reflect the potential support from the Region of Piemonte (RP, rated 'AA-' (AA minus)/Outlook Stable) and its finance company subsidiary, FinPiemonte (FP, 62%-owned by RP) in case of need. RP and FP appoint some of Eurofidi's board members, including its president, and exert effective control. FP has supported Eurofidi's growth plans in the past (including taking part in a EUR32m capital increase completed in early 2007), and Fitch understands that it is committed to continue to do so. Eurofidi is indirectly owned (21%) by FP, through its holding subsidiary FinPiemonte Partecipazioni (100%-owned by FP), as well as by several national and local banks (34%) and numerous SMEs and local associations (45%). With over EUR4bn of gross guarantees outstanding at end-September 2007, Eurofidi is the largest specialist guarantee issuer in Italy.

FL's ratings reflect the potential support from the Region of Lombardy (RL; rated 'AA-' (AA minus)/Outlook Stable). Credit risk is good despite a slight deterioration in asset quality; market risk is low and capitalisation acceptable. FL's ratings are highly linked to RL's ratings. Any change in RL's ability or propensity to support FL could affect FL's ratings. FL is a second-tier guarantee issuer based in Milan, through which RL supports regional confidi and local businesses through credit guarantees. RL owns a 23% stake in FL directly and an additional 6% through its wholly-owned finance company Finlombarda.

The ratings for Nea reflect its mediocre operating profitability and its small size. They also take into account the secure mechanism it has in place to protect its equity from loan losses, as well as its conservative credit risk management and good capitalisation. While Fitch considers that any rating uplift is currently limited, in the longer term, ratings might benefit from a sound record of substantially improved operating profitability and increased capital. A downgrade would derive from Nea's persistent inability to improve operating profitability over the medium-term or a marked deterioration of asset quality. Nea is a cooperative company based in Vicenza providing credit guarantees to SMEs.

The ratings of UPI reflect its scarce capitalisation, weaker asset quality than some of its peers and frail profitability. They also take into account the improving internal organisation, low market risk and the announced merger project with

other two confidi, Confidi Provincie Lombarde (previously know as Confidi Milano) and Confidi Sardegna. UPI's management expects to complete the merger by end-2008. Fitch expects the resulting confidi to be well capitalised. The new confidi would be based in Turin and operate using UPI's IT system. Improvement in the ratings would first require a strengthening of UPI's capital and more satisfactory asset quality. Deterioration in asset quality or failure to raise new capital along with increasing volumes and risks could adversely affect them. UPI is a regional confidi that provides credit guarantees to SMEs. It was set up in 1975 and is based in Turin, in the region of Piedmont.

Credit updates on these entities will be available shortly on the agency's subscription website, [www.fitchresearch.com](http://www.fitchresearch.com), under Financial Institutions/Financial Institutions/Summary Pages.

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