

City of Milan

Rating Report



Credit strengths

- Supportive institutional framework
- Sound financial management
- Ample liquidity
- Wealthy socio-economic profile

Credit challenges

- Large debt stock
- Limited revenue flexibility
- Sizeable, though low-risk, contingent liabilities

Ratings and Outlook

Foreign & local currency

Long-term issuer rating BBB+/Stable
 Senior unsecured debt BBB+/Stable
 Short-term issuer rating S-2/Stable

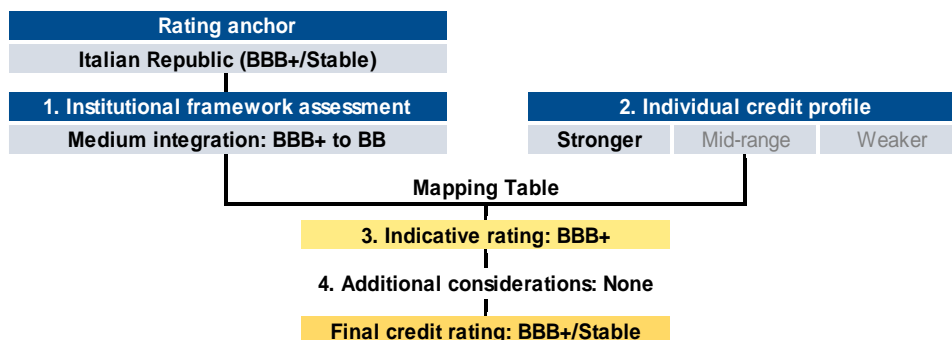
Rating rationale and Outlook:

The City of Milan's (Milan) BBB+ rating is driven by:

- An integrated institutional framework, which results in a close alignment of the Italian cities' creditworthiness with the Italian central government's BBB+/Stable ratings. This includes conditional financial assistance mechanisms, restrictions on cities' debt and liquidity management and sovereign on-lending through the state-owned promotional bank Cassa Depositi e Prestiti. Also, budgetary support measures have been made available to cities during shocks, such as the Covid-19 pandemic.
- A strong individual credit profile, characterised by Milan's conservative debt and liquidity management, reflected in a robust debt profile and ample cash reserves, which, together with the city's sound budget management, supports debt reduction. The credit also benefits from a dynamic local economy, as Italy's leading commercial, industrial and financial hub. Credit challenges relate to a high debt stock, limited revenue flexibility, and sizeable, yet manageable, contingent liabilities.

The Stable Outlook represents our view that risks to the ratings over the next 12 to 18 months are balanced.

Scope's approach to rating Milan



For further details, please see Scope's [Sub-sovereigns Rating Methodology](#).

Source: Scope Ratings

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Bloomberg: RESP SCOP

Positive rating-change drivers

- Upgrade of Italy's rating/Outlook
- Changes to the institutional framework increasing budgetary and financial flexibility

Negative rating-change drivers

- Downgrade of Italy's rating/Outlook
- Structural deterioration in budgetary performance
- Notable increase in the debt stock

I. Institutional Framework Assessment

To assess the institutional framework, we apply a Qualitative Scorecard (QS1) centred around 6 components. We assess each analytical component on a five-point scale ranging from a score of 0 for 'low' integration to 100 for 'full' integration. The institutional framework score, ranging from 0 to 100, is calculated as a simple average of these assessments. The score is then used to determine a rating range from the rating anchor level, within which the sub-sovereign's rating can be positioned.

Our assessment of intergovernmental integration between the Italian cities and the Italian Republic (BBB+/Stable) results in an indicative downward rating range of four notches from the Italian sovereign, within which the cities can be positioned according to their individual credit strengths.

Institutional Framework scorecard (QS1)

| Analytical components | Full integration (100) | Strong integration (75) | Medium integration (50) | Some integration (25) | Low integration (0) |
|--|----------------------------------|----------------------------------|----------------------------------|-----------------------|-----------------------|
| Extraordinary support and bailout practices | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Ordinary budgetary support and fiscal equalisation | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Funding practices | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Fiscal rules and oversight | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Revenue and spending powers | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Political coherence and multi-level governance | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> | <input type="radio"/> | <input type="radio"/> |

| | |
|-----------------------|-----|
| Integration score | 67 |
| Downward rating range | 0-4 |

| Institutional framework score | 100 > x ≥ 90 | 90 > x ≥ 80 | 80 > x ≥ 70 | 70 > x ≥ 60 | 60 > x ≥ 50 | 50 > x ≥ 40 | 40 > x ≥ 30 | 30 > x ≥ 20 | 20 > x ≥ 10 | 10 > x ≥ 0 |
|-------------------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Indicative rating range | 0-1 | 0-2 | 0-3 | 0-4 | 0-5 | 0-6 | 0-7 | 0-8 | 0-9 | 0-10 |

II. Individual Credit Profile (ICP)

To assess the ICP, we apply a Qualitative Scorecard 2 (QS2), centred around 10 components, underpinned by peer benchmarking of quantitative metrics complemented by qualitative and forward-looking elements. The sub-sovereign is assessed as ‘weaker’ (score of 0), ‘mid-range’ (score of 50), or ‘stronger’ (score of 100) in each component. The individual credit profile score, ranging from 0 to 100, is calculated as a simple average of these assessments. In addition, we make two additional assessments for environmental and social factors, which can lead to adjustments by up to +/- 10 points cumulatively.

We assess the individual credit profile of Milan as strong vis-à-vis peers, with an ICP score of 80 out of 100.

Individual Credit Profile scorecard (QS2)

| Risk pillar | Analytical components | Stronger (100) | Mid-range (50) | Weaker (0) |
|---|---|----------------------|----------------|----------------------|
| Debt and liquidity 40% | Debt burden & trajectory | ○ | ● | ○ |
| | Debt profile & affordability | ● | ○ | ○ |
| | Contingent liabilities | ○ | ● | ○ |
| | Liquidity position & funding flexibility | ● | ○ | ○ |
| Budget 30% | Budgetary performance & outlook | ○ | ● | ○ |
| | Revenue flexibility | ○ | ● | ○ |
| | Expenditure flexibility | ● | ○ | ○ |
| Economy 20% | Wealth levels & economic resilience | ● | ○ | ○ |
| | Economic sustainability | ● | ○ | ○ |
| Governance 10% | Governance & financial management quality | ● | ○ | ○ |
| Additional environmental and social factors | | Positive impact (+5) | No impact (0) | Negative impact (-5) |
| Environmental factors and resilience | | ○ | ● | ○ |
| Social factors and resilience | | ○ | ● | ○ |

| | |
|---------------------|----|
| ICP score | 80 |
| Indicative notching | 0 |

III. Mapping Table

We derive the indicative rating by mapping the rating range derived by the institutional framework assessment to the ICP score.

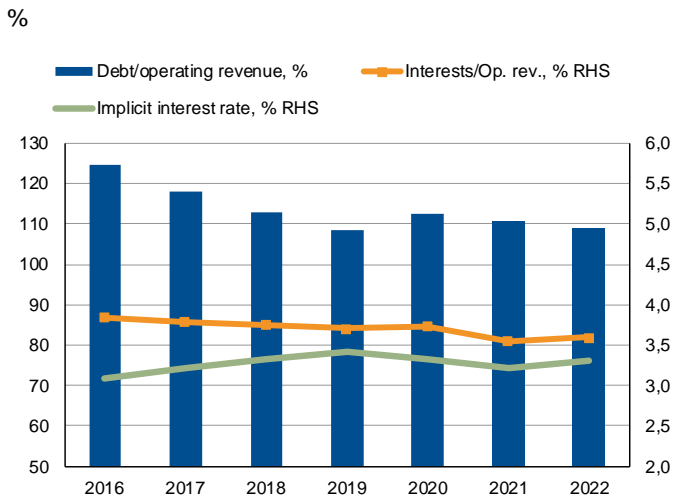
For Milan, this results in an indicative rating aligned to the sovereign rating, corresponding to BBB+.

| Rating anchor | Institutional framework assessment | | Individual credit profile score | | | | | | | |
|------------------|------------------------------------|-----------------------|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| Italian Republic | Score | Downward rating range | 100 > x ≥ 80 | 80 > x ≥ 70 | 70 > x ≥ 60 | 60 > x ≥ 50 | 50 > x ≥ 40 | 40 > x ≥ 30 | 30 > x ≥ 20 | 20 > x ≥ 0 |
| BBB+/Stable | 100 > x ≥ 90 | 0-1 | BBB+ | BBB+ | BBB+ | BBB+ | BBB+ | BBB+ | BBB | BBB |
| | 90 > x ≥ 80 | 0-2 | BBB+ | BBB+ | BBB | BBB | BBB | BBB | BBB- | BBB- |
| | 80 > x ≥ 70 | 0-3 | BBB+ | BBB | BBB | BBB | BBB- | BBB- | BB+ | BB+ |
| | 70 > x ≥ 60 | 0-4 | BBB+ | BBB | BBB | BBB- | BBB- | BB+ | BB+ | BB |
| | 60 > x ≥ 50 | 0-5 | BBB+ | BBB | BBB | BBB- | BBB- | BB+ | BB | BB- |
| | 50 > x ≥ 40 | 0-6 | BBB+ | BBB | BBB/BBB- | BBB-/BB+ | BBB-/BB+ | BB+/BB | BB/BB- | B+ |
| | 40 > x ≥ 30 | 0-7 | BBB+ | BBB/BBB- | BBB/BBB- | BBB-/BB+ | BB+/BB | BB/BB- | BB-/B+ | B |
| | 30 > x ≥ 20 | 0-8 | BBB+ | BBB/BBB- | BBB-/BB+ | BB+/BB | BB/BB- | BB-/B+ | B+/B | B- |
| | 20 > x ≥ 10 | 0-9 | BBB+ | BBB/BBB- | BBB-/BB+ | BB+/BB | BB/BB- | BB-/B+ | B/B- | CCC |
| | 10 > x ≥ 0 | 0-10 | BBB+ | BBB/BBB- | BBB-/BB+ | BB+/BB | BB-/B+ | B/B- | CCC/CC | CC |

No additional considerations apply to Milan’s ratings. As such, the **final rating** corresponds to its indicative rating of **BBB+**.

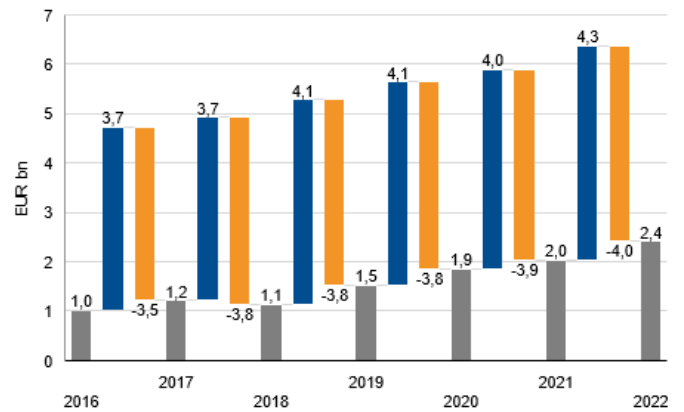
IV. Selected charts

Debt and interest burden



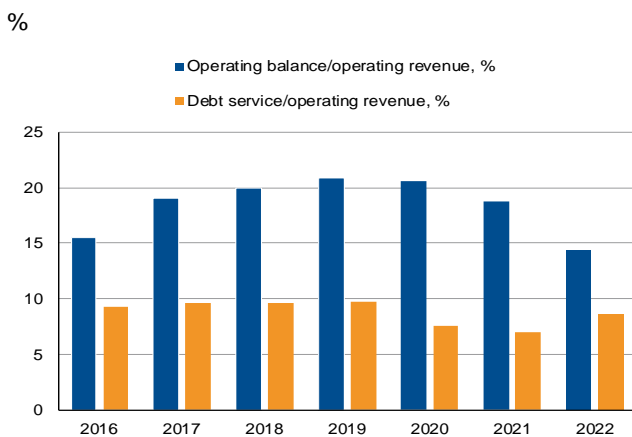
Cash flow

EUR bn; inflow: blue, outflow: orange, holdings: grey



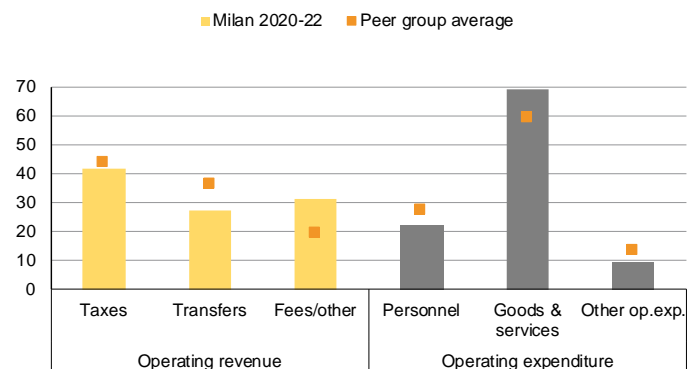
Source: Comune di Milano, Ragioneria Generale dello Stato, Scope Ratings

Budgetary performance



Operating budget composition

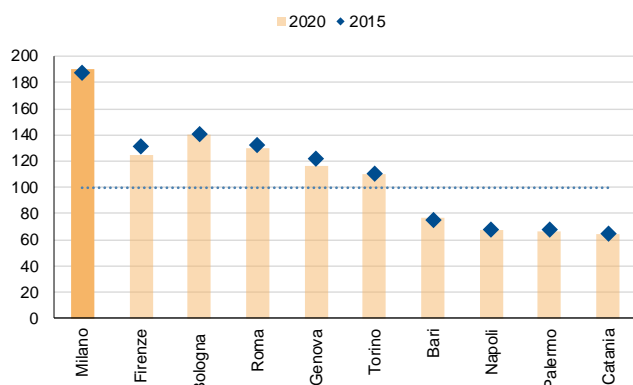
% of total operating revenue and expenditure



Source: Comune di Milano, Ragioneria Generale dello Stato, Scope Ratings

GDP per capita

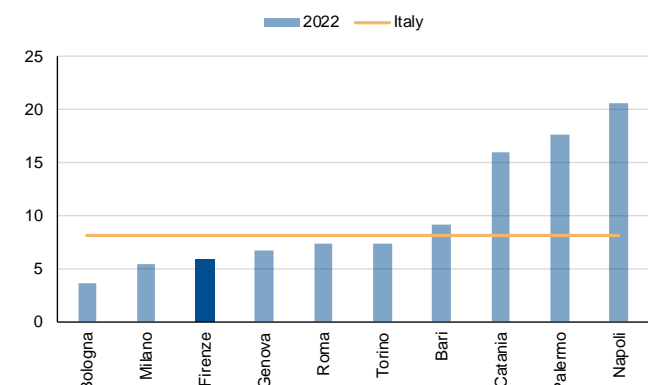
% of the national average



NB: Data at the provincial level

Unemployment rate

%



Source: Eurostat, ISTAT, Scope Ratings

VI. Statistical Overview

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|-------|-------|-------|-------|-------|-------|-------|
| Financials, EUR m | | | | | | | |
| Operating revenue | 3,143 | 3,161 | 3,266 | 3,285 | 3,191 | 3,329 | 3,304 |
| Operating expenditure | 2,656 | 2,559 | 2,612 | 2,598 | 2,536 | 2,703 | 2,828 |
| Operating balance | 487 | 602 | 654 | 687 | 656 | 626 | 476 |
| Interest income | 16 | 17 | 15 | 16 | 16 | 15 | 16 |
| Interest payments | 121 | 120 | 122 | 122 | 119 | 118 | 119 |
| Current balance | 382 | 499 | 546 | 581 | 553 | 523 | 373 |
| Capital balance | -84 | -84 | 107 | 78 | -92 | -136 | -31 |
| Net revenue from financial activities | 0 | -3 | -29 | 17 | -199 | 0 | -10 |
| Balance before debt movement | 297 | 411 | 624 | 677 | 262 | 387 | 332 |
| Debt | 3,923 | 3,734 | 3,688 | 3,564 | 3,594 | 3,683 | 3,601 |
| Gross borrowing (incl. flexible loans already in the debt stock) | 105 | 111 | 127 | 117 | 127 | 96 | 99 |
| Redemption | 172 | 184 | 193 | 198 | 121 | 113 | 163 |
| Quantitative metrics | | | | | | | |
| Debt/operating revenue, % | 124.8 | 118.1 | 112.9 | 108.5 | 112.6 | 110.6 | 109.0 |
| Debt/operating balance, years | 8.1 | 6.2 | 5.6 | 5.2 | 5.5 | 5.9 | 7.6 |
| Interest payments/operating revenue, % | 3.8 | 3.8 | 3.8 | 3.7 | 3.7 | 3.6 | 3.6 |
| Implicit interest rate, % | 3.1 | 3.2 | 3.3 | 3.4 | 3.3 | 3.2 | 3.3 |
| Operating balance/operating revenue, % | 15.5 | 19.0 | 20.0 | 20.9 | 20.5 | 18.8 | 14.4 |
| Balance before debt movement/total revenue, % | 8.5 | 11.3 | 15.7 | 16.9 | 7.0 | 10.0 | 8.6 |
| Transfers and grants/operating revenue, % | 13.4 | 13.9 | 14.4 | 13.4 | 31.3 | 30.4 | 19.5 |
| Personnel costs/operating expenditure, % | 23.3 | 23.0 | 23.3 | 22.9 | 23.0 | 21.5 | 21.6 |
| Capital expenditure/total expenditure, % | 9.2 | 11.5 | 11.5 | 15.4 | 17.4 | 16.6 | 15.0 |
| GDP per capita, % of national GDP per capita | 189.0 | 187.9 | 188.5 | 184.7 | 190.0 | - | - |

Source: Comune di Milano, Ragioneria Generale dello Stato, Scope Ratings



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