REPUBLIC OF ITALY

*EJR Sen Rating(Curr/Prj) BBB-/ NR

Rating Analysis - 8/30/22

The Italian economy rebounded vigorously from the COVID-related drop in output and has avoided economic scarring. Employment and labor force participation have fully recovered, and banks' NPL loans have continued to decline and their capital positions have strengthened. Nevertheless, the economy is now facing major new challenges. After a sharp 6.6% rebound in 2021, Italy's GDP growth will be hit by the war. OECD expects growth is expected to be 2.5% in 2022, supported by strong base effects, and 1.2% in 2023. Persistent war-related inflationary pressures and uncertainty will hold back household consumption, slowing the recovery in services.

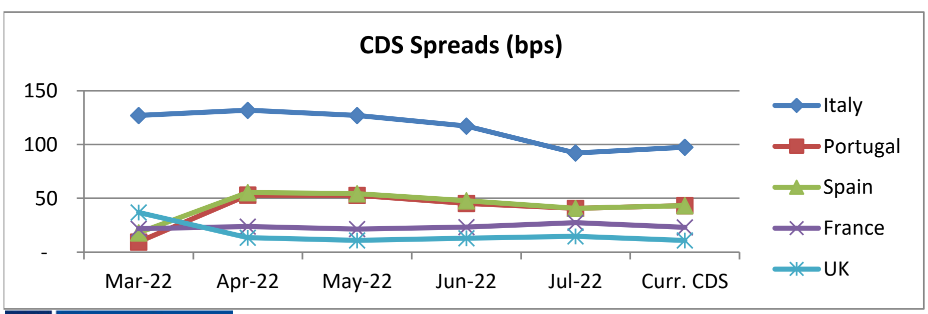
New incentives for the private sector and the National Recovery and Resilience Plan will mitigate some of the negative impact of supply disruptions and uncertainty on investment. With gas constituting 42% of total energy consumption, the main risks to the outlook are energy prices and supplies. Sharply higher bond yields could also lower growth. Fiscal stimulus, undertaken in response to the crisis, should be gradually withdrawn. Affirming with a developing watch.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2019	2020	2021	P2022	P2023	P2024
Debt/ GDP (%)	154.1	183.6	173.7	173.5	169.8	162.5
Govt. Sur/Def to GDP (%)	-1.9	-9.8	-7.2	-3.8	-0.3	3.1
Adjusted Debt/GDP (%)	154.1	183.6	173.7	173.5	169.8	162.5
Interest Expense/ Taxes (%)	11.7	12.0	11.9	11.1	10.2	9.6
GDP Growth (%)	1.4	-7.8	7.2	2.5	3.0	3.0
Foreign Reserves/Debt (%)	1.4	1.3	1.4	1.4	1.5	1.6
Implied Sen. Rating	BB+	BB-	BB+	BB+	BBB-	BBB-

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

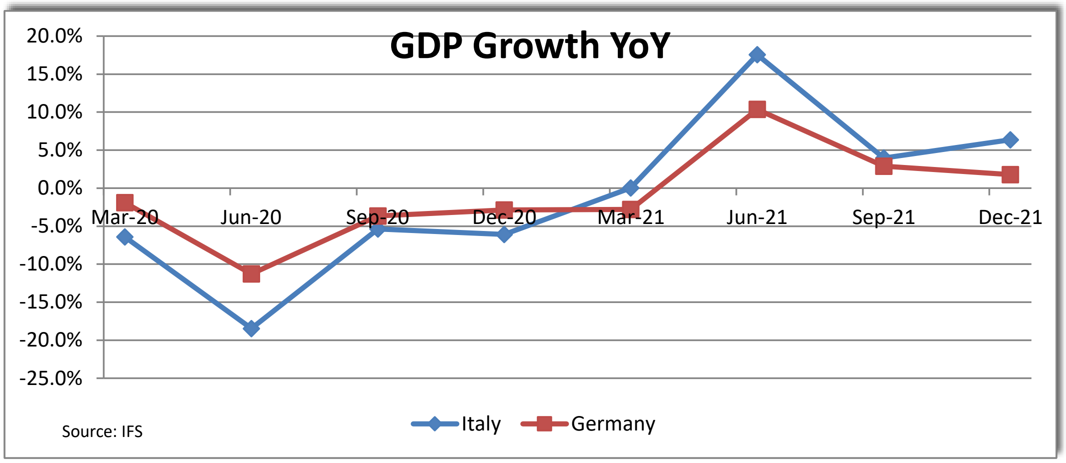
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	77.8	-3.6	77.8	2.4	6.0	AA
French Republic	AA	137.3	-6.0	137.3	4.6	8.2	A-
United Kingdom	AA	190.8	-8.9	190.8	9.4	7.8	BBB
Portugal Republic	BB+	145.5	-3.1	145.5	9.8	5.6	BBB-
Kingdom Of Spain	BBB	142.5	-6.6	142.5	8.8	7.4	BBB+



Country	EJR Rtg.	CDS
Italy	BBB-	98
Portugal	BBB-	43
Spain	BBB+	43
France	A+	23
UK	A+	11

Economic Growth

GDP has fully recovered from the pandemic crisis, but government debt has risen to very high levels. The war in Ukraine triggered a surge in energy prices and the prospect of monetary policy tightening caused government bond yields to rise sharply. Italy's gross domestic product expanded by 1% seq. in the three months leading to June 2022, following a slight growth of 0.1% in the previous quarter and surpassing expectations of a 0.3 percent rise. It was the sixth consecutive period of expansion and the sharpest rate since Q3 of 2021. With the expansion, the Ministry of the Economy and Finance noted that Italy's pandemic recovery is complete, since output in the second quarter of 2022 surpassed the average for 2019. Meanwhile, the carry-over annualized rate of expansion in the first half of the year was 3.4 percent. The government forecasts a 3.1 percent in growth for the Italian economy in 2022, downwardly revised from the 4.7 percent estimate amid a highly uncertain macroeconomic backdrop.



Fiscal Policy

Compensation for high energy bills should be temporary, target vulnerable households and viable firms, and high wholesale prices should be passed through to end users to encourage conservation. Very high public debt and rising borrowing costs call for accelerating potential growth and steadily—but decisively—raising the primary balance. Government policy remains focused on raising growth and gradually reducing fiscal support so that by 2030 total debt returns to 2019 levels. The fiscal stance is set to remain expansionary in 2022, with a deficit of 6.1% declining to 4.2% in 2023.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Italy	-7.19	173.71	97.55
Germany	-3.62	77.80	10.21
France	-5.97	137.28	23.02
UK	-8.88	190.85	10.93
Portugal	-3.09	145.47	43.34
Spain	-6.60	142.46	43.34

Sources: Thomson Reuters and IFS

Unemployment

Employment and labor force participation have fully recovered, but the composition is now more skewed toward temporary contracts and older workers. With the working-age population having fallen by 1.5%—likely on net emigration—labor market slack has been reduced. The unemployment rate in Italy fell to 8.1% in June of 2022 from an upwardly revised 8.2% in the prior month, in line with market expectations. The figure marked the lowest unemployment rate since April of 2020. The number of unemployed fell by 4

Unemployment (%)	2020	2021
Italy	9.30	9.56
Germany	3.83	3.58
France	8.03	7.88
UK	0.00	0.00
Portugal	7.12	6.60
Spain	15.53	14.81

Source: Intl. Finance Statistics

Banking Sector

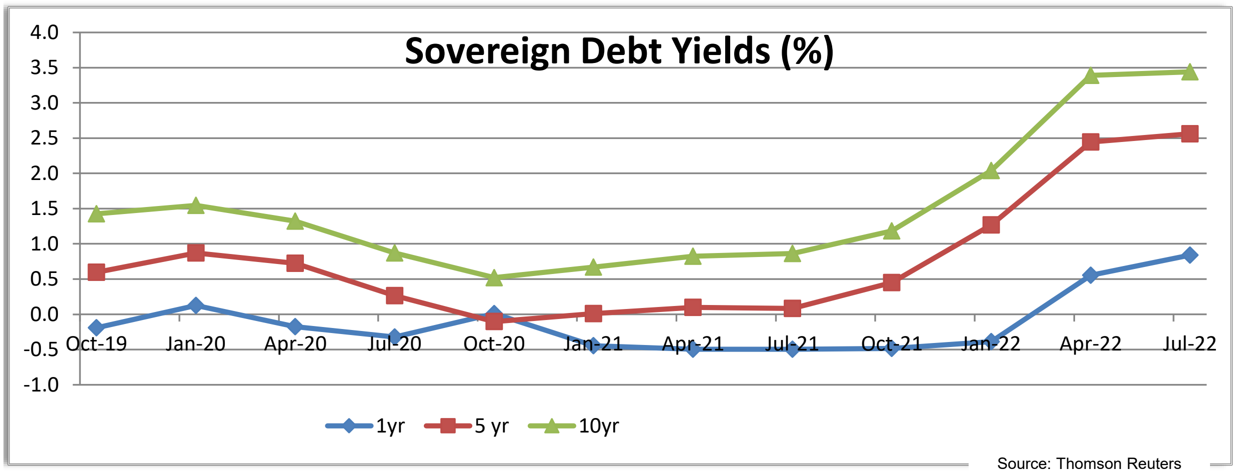
The banking sector's financial health has improved since the start of the pandemic, but is now facing new challenges. Return on equity rose in 2021, including on partial reversal of unused loan loss provisions accumulated during the pandemic. Banks made sizable carry-trade profits by borrowing from the ECB's concessional TLTRO facility and on-lending or purchasing securities.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
UniCredit SpA	916.7	2.19
Intesa Sanpaolo SpA	1,069.0	3.22
Banco Bpm SpA	200.5	1.89
Banca Monte dei Paschi	137.9	0.33
UBI Banca	131.3	3.11
Total	2,455.4	
EJR's est. of cap shortfall at 10% of assets less market cap		182.7
Italy's GDP		1,775.4

Funding Costs

Italy 10Y Bond Yield was recently trading around 3.02 percent, and is expected to trade at 3.22 percent by the end of this quarter, according to Trading Economics global macro models. According to consensus, it is expected to trade at 3.86 percent in 12 months' time.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 58 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*

	2021 Rank	2020 Rank	Change in Rank
Overall Country Rank:	**58**	**58**	**0**
Scores:			
Starting a Business	98	98	0
Construction Permits	97	97	0
Getting Electricity	38	38	0
Registering Property	26	26	0
Getting Credit	119	119	0
Protecting Investors	51	51	0
Paying Taxes	128	128	0
Trading Across Borders	1	1	0
Enforcing Contracts	122	122	0
Resolving Insolvency	21	21	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Italy is above average in its overall rank of 64.9 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom
World Rank 64.9*

	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	75.7	75.4	0.3	53.6
Government Integrity	62.3	62.2	0.1	45.9
Judical Effectiveness	63.7	51.3	12.4	45.4
Tax Burden	58.1	56.0	2.1	77.7
Gov't Spending	28.9	28.5	0.4	67.1
Fiscal Health	73.0	71.1	1.9	72.1
Business Freedom	68.1	70.4	-2.3	63.2
Labor Freedom	50.5	50.9	-0.4	59.5
Monetary Freedom	84.2	83.2	1.0	74.7
Trade Freedom	84.0	86.4	-2.4	70.7

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:
REPUBLIC OF ITALY has grown its taxes of 10.1% per annum in the last fiscal year which is reasonably rapid. We expect tax revenues will grow approximately 10.1% per annum over the next couple of years and 9.1% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
REPUBLIC OF ITALY's total revenue growth has been less than its peers and we assumed no growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	12.9	10.1	**10.1**	**9.1**
Social Contributions Growth %	6.3	6.7	**7.0**	**7.0**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	11.2	**20.2**	**20.2**
Total Revenue Growth%	10.0	9.2	**9.2**	**8.3**
Compensation of Employees Growth%	4.0	1.6	**1.6**	**1.6**
Use of Goods & Services Growth%	7.0	6.6	**6.6**	**6.6**
Social Benefits Growth%	1.2	0.2	**0.2**	**0.2**
Subsidies Growth%	9.0	9.3		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.0	**2.0**	
Currency and Deposits (asset) Growth%	3.3	0.0		
Securities other than Shares LT (asset) Growth%	3.5	0.0		
Loans (asset) Growth%	(71.8)	(131.3)	**10.1**	**10.1**
Shares and Other Equity (asset) Growth%	(246.3)	30.4	**30.4**	**27.3**
Insurance Technical Reserves (asset) Growth%	2.7	0.0		
Financial Derivatives (asset) Growth%	0.8	0.0		
Other Accounts Receivable LT Growth%	4.2	(3.2)	**(3.2)**	**(3.2)**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	2.2	18.4	**5.0**	**5.0**
Currency & Deposits (liability) Growth%	4.3	(2.1)	**0.5**	**0.5**
Securities Other than Shares (liability) Growth%	2.6	(0.1)	**(0.1)**	**(0.1)**
Loans (liability) Growth%	0.7	12.3	**12.3**	**12.3**
Insurance Technical Reserves (liability) Growth%	2.3	35.7	**2.0**	**2.0**
Financial Derivatives (liability) Growth%	0.0	(33.2)	**(10.0)**	**(10.0)**
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are REPUBLIC OF ITALY's annual income statements with the projected years based on the assumptions listed on page 5.

ANNUAL REVENUE AND EXPENSE STATEMENT
(MILLIONS EUR)

	2018	2019	2020	2021	P2022	P2023
Taxes	504,642	516,963	478,750	527,050	580,282	638,891
Social Contributions	234,452	242,224	229,731	245,025	262,177	280,529
Grant Revenue						
Other Revenue						
Other Operating Income	79,428	84,030	76,917	85,559	85,559	85,559
Total Revenue	818,522	843,217	785,398	857,634	928,018	1,004,979
Compensation of Employees	172,642	172,922	173,484	176,309	179,180	182,098
Use of Goods & Services	100,545	101,174	103,633	110,439	117,692	125,421
Social Benefits	394,510	406,928	445,318	446,252	447,188	448,126
Subsidies	27,550	27,903	32,701	35,756	35,760	35,763
Other Expenses				102,606	102,606	102,606
Grant Expense						
Depreciation	48,997	49,113	49,421	51,064	51,064	51,064
Total Expenses excluding interest	803,284	817,522	891,256	922,426	933,490	945,078
Operating Surplus/Shortfall	15,238	25,695	-105,858	-64,792	-5,472	59,901
Interest Expense	64,596	60,361	57,318	62,863	64,144	65,452
Net Operating Balance	-49,360	-34,666	-163,176	-127,656	-69,616	-5,551

ANNUAL BALANCE SHEETS

Below are REPUBLIC OF ITALY's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (MILLIONS EUR)					
ASSETS	2018	2019	2020	2021	P2022	P2023
Currency and Deposits (asset)	71,703	73,147	86,327	85,505	85,505	85,505
Securities other than Shares LT (asset)	22,952	25,339	22,912	24,763	24,763	24,763
Loans (asset)	-1,718	-624	2,703	-847	-933	-1,027
Shares and Other Equity (asset)	2,991	1,661	3,278	4,273	5,570	7,261
Insurance Technical Reserves (asset)	1,111	1,119	1,106	1,159	1,159	1,159
Financial Derivatives (asset)						
Other Accounts Receivable LT	119,040	120,930	123,450	119,460	115,599	111,863
Monetary Gold and SDR's						
Other Assets					310,742	310,742
Additional Assets	289,191	302,346	302,847	310,742		
Total Financial Assets	505,270	523,918	542,623	545,055	542,405	540,266
LIABILITIES						
Other Accounts Payable	88,381	94,660	102,280	121,097	127,152	133,509
Currency & Deposits (liability)	237,605	227,292	228,929	224,143	224,143	224,143
Securities Other than Shares (liability)	2,080,231	2,259,261	2,495,188	2,492,626	2,490,834	2,489,044
Loans (liability)	185,720	177,147	195,319	219,306	288,922	294,473
Insurance Technical Reserves (liability)	9,097	9,925	19,817	26,885	27,423	27,971
Financial Derivatives (liability)	21,246	26,995	29,726	19,854	17,869	16,082
Other Liabilities		1		1	1	1
Liabilities	2,622,280	2,795,281	3,071,259	3,103,912	3,170,878	3,174,290
Net Financial Worth	-2,117,010	-2,271,363	-2,528,636	-2,558,857	-2,628,473	-2,634,024
Total Liabilities & Equity	505,270	523,918	542,623	545,055	542,405	540,266

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustmer which are reflected in the results for the projected ratings. We have assigned a rating of "BBB-" whereas the ratio-implied rating for most recent period is "BB+"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:
For the issuer REPUBLIC OF ITALY with the ticker of 2103Z IM we have assigned the senior unsecured rating of BBB-. There are three notches in our rating categories (e.g., A- A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:
We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15a available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:
The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:
Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:
Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:
EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:
Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:
EJR uses publicly available information from the IMF, governmental filings and other similar sources for ratings on sovereign issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:
This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:
Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:
Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:
Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			**Resulting Ratio-Implied Rating**		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	10.1	14.1	6.1	BBB-	BBB-	BB+
Social Contributions Growth %	7.0	10.0	4.0	BBB-	BBB-	BB+
Other Revenue Growth %		3.0	(3.0)	BBB-	BBB-	BBB-
Total Revenue Growth%	9.2	11.2	7.2	BBB-	BBB-	BBB-
Monetary Gold and SDR's Growth %	(3.2)	(1.2)	(5.2)	BBB-	BBB-	BBB-

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:
This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature: **Today's Date**

August 30, 2022

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Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

August 30, 2022

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Steve Zhang
Senior Rating Analyst

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.