

Outlooks On Intesa Sanpaolo, UniCredit, Mediobanca, Credito Sportivo, Fineco Revised To Positive On Lower Economic Risks

November 23, 2021

- Once implemented, Italy's recovery plan could boost economic growth even beyond our current expectations.
- A prolonged period of economic expansion would potentially enhance most banks' earnings capacity, asset quality, and capitalization.
- Therefore, we now view the trend for economic risk for Italian banks as positive.
- We have revised our outlooks to positive from stable and affirmed the ratings on Italian banks Intesa Sanpaolo SpA and its core subsidiary Fideuram - Intesa Sanpaolo Private Banking, UniCredit SpA, Mediobanca SpA and its core subsidiary MB Funding Lux S.A., FinecoBank SpA, and Istituto per il Credito Sportivo
- The positive outlooks primarily reflect the possibility that we could upgrade the banks if we raise the rating on Italy and conclude that reducing economic risks have significantly strengthened their stand-alone creditworthiness.

MILAN (S&P Global Ratings) Nov. 23, 2021--S&P Global Ratings today took the following rating actions (see the Ratings List for full details):

- We revised the outlooks on Intesa Sanpaolo SpA, Fideuram - Intesa Sanpaolo Private Banking SpA, UniCredit SpA, Mediobanca SpA, MB Funding Lux S.A., and FinecoBank SpA to positive from stable and affirmed the ratings, including our 'BBB/A-2' long- and short-term issuer credit ratings (ICRs).
- We revised our outlook on government-related entity (GRE) Istituto per il Credito Sportivo (ICS) to positive from stable and affirmed the 'BBB-/A-3' long- and short-term ICRs.

Today's rating actions primarily reflect both our opinion that economic risks for Italian banks are decreasing and the positive outlook on Italy. After more than a decade of weak economic performance, Italy might post its best real GDP growth rates since 1973. According to our economists, Next Generation EU funds could push Italian GDP up by at least 1.9 percentage points over the medium term. This, on top of 4.4% and 1.8% expected GDP growth in 2022 and 2023, is well above Italy's average over the past two decades. In addition, Italy's fiscal consolidation efforts will benefit from protracted favorable economic conditions, which would likely translate into low nonperforming exposure (NPE) formation and credit losses, outside the short dated and manageable one-off impact from the pandemic.

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We see upside risks to our base-case assumptions if economic conditions remain supportive.

In our base case, we still anticipate NPEs will likely rise somewhat in 2022, after a sharp contraction in recent years and the stabilization seen in 2021, before falling again from 2023. We consider this trend a likely one-off effect related to the pandemic. In our forecast, we factor a prudent assumption of 280 basis points (bps) of cumulative credit losses in 2021-2022 and 2023. We acknowledge that those losses could be meaningfully reduced if uncertainties about business prospects faced by riskier sectors eventually vanish.

Moreover, banks' expected loss rates in the NPE portfolio could also be reduced by government guarantees currently attached to about €240 billion of customer loans, predominantly to riskier small and medium enterprises. These are currently not reflected in our own credit loss expectations due to still limited visibility on the timing and conditions.

Until now, the pandemic's effect on banks' asset quality has been very modest thanks to government support measures and the sufficient time banks had to build up loan loss reserves against future losses. The impact was further reduced through the sale of residual legacy assets from the past recession.

Lower economic risks and a higher sovereign rating would contribute to banks' capitalization and profitability.

We consider that improving economic and operating conditions will benefit banks' solvency, and estimate that they could add about 40 bps-150 bps, depending on the bank, to our forecast risk-adjusted capital (RAC) over the next two years. This is because we would apply lower risk weights to banks' Italy-based exposures and exposures to Italian government securities and other GREs.

On top of those effects, we anticipate that diminishing economic risks will contribute to banks' profitability prospects considering that credit losses still absorb a meaningful amount of gross operating income. Higher earning capacity will likely provide banks with more funds for rising dividend distributions and investments to revamp their operations in the coming years.

However, in our view, banks' performance and the impact of these positive developments on their creditworthiness will continue to vary significantly. As such, for some institutions lower economic risks and higher sovereign creditworthiness would only cushion the impact cyclical (persistent interest rates) and structural or longer-terms headwinds (modest efficiency, lack of size and diversification, and tech disruption) could have on the sustainability of their business models. For banks with stronger and more sustainable business models, these potential developments would remove the main constraints for our ratings at the current level.

Consequently, our positive outlooks on Intesa Sanpaolo, FinecoBank, Mediobanca, MB Funding Lux, and ICS reflect the upside we see to their profitability prospects, capitalization, asset quality, and overall stand-alone creditworthiness. Our outlooks on these banks also mirror that on Italy, since we could only upgrade them if we upgrade the sovereign. For UniCredit, the positive outlook reflects the possibility we could raise the rating if we conclude that the bank's creditworthiness has improved and, even absent a sovereign upgrade, that it retains sufficient loss absorption capacity to potentially survive the stress associated with a hypothetical sovereign default scenario.

Intesa Sanpaolo SpA

The positive outlook on Intesa Sanpaolo and its core subsidiary, Fideuram - Intesa Sanpaolo Private Banking, primarily reflects our opinion that improving economic conditions in Italy could enhance projected profitability, capitalization, and asset quality over the next two years. It also

mirrors the outlook on Italy. In our base-case scenario, we anticipate Intesa Sanpaolo's 2023 RAC at 6.3%-6.5%, with a further increase in recurring profitability over the next couple of years compared with 2021, despite our assumption credit losses will remain at 60 bps-70 bps per year. If we conclude that economic risks for Italian banks have diminished and upgrade the sovereign, this could add up to 70 bps-90 bps to our RAC expectations.

Upside scenario

We could upgrade Intesa over the next 12-24 months if we raise our rating on Italy, and we conclude that the bank's creditworthiness has strengthened. The latter scenario would most likely be linked to lower economic risks we might see in Italy, resulting in our projected RAC ratio sustainably exceeding 7%, while asset quality metrics remain resilient and better than those of peers.

Downside Scenario

We could revise our outlook back to stable if we take a similar action on Italy. We consider that, given the bank's high exposure to Italy and large holding of Italian government securities, it will not be able to withstand a hypothetical scenario of sovereign stress. We could also revise the outlook on the bank to stable if we conclude that economic risks in Italy have not improved and, contrary to our expectations, Intesa's asset quality and capital buffers have also not sufficiently strengthened.

Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on Intesa's hybrids from the lower of the stand-alone capital profile (SACP) and ICR. Therefore, if we raise the ratings on Intesa, we would also raise the ratings on the bank's rated additional Tier 1 (AT1), Tier 2, and senior nonpreferred instruments.

UniCredit SpA

The positive outlook reflects our expectation that the more supportive macroeconomic environment in Italy, one of the main geographies where UniCredit operates, will be favorable for the bank's financial profile over the next 12-24 months and could sustain its profitability and asset quality. In our base-case scenario, we expect UniCredit's credit losses will decline below 60 bps in 2021-2022 after a high 94 bps on average in 2019-2020, while operating profits are likely to benefit from increasing business, and will support the group's capitalization. We forecast UniCredit's RAC ratio at 7.5%-8.0% from 7.7% at year-end 2020. If we conclude that economic risks for Italian banks have diminished and upgrade the sovereign, this could add up to 55 bps-65 bps to our RAC expectations.

Upside scenario

We could raise the ratings by one notch if we conclude that economic risk in Italy has reduced and this helps UniCredit's efforts to continue enhancing its profitability and overall credit profile. Specifically, this could occur if UniCredit keeps succeeding in its efforts to reduce the legacy stock of deteriorated assets and contains any potential impact of the pandemic on its asset quality

within manageable levels, while maintaining a RAC ratio comfortably above 7%.

Downside scenario

We could revise the outlook to stable if we conclude that economic risks in Italy have not improved and UniCredit's asset quality will deteriorate significantly. If we revise the outlook on Italy this would not immediately trigger the same action on UniCredit, so long as it maintains sufficient buffers to weather a hypothetical scenario of sovereign stress without necessarily defaulting on its senior obligations.

Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on UniCredit's hybrids--namely senior nonpreferred, subordinated, and junior subordinated notes--from the lower of two potential starting points: the SACP and the ICR. Therefore, if we raise the ICR and revise up the SACP, we would also raise the ratings on the bank's rated subordinated debt obligations.

Mediobanca SpA

The positive outlooks on Mediobanca and its core subsidiary, MB Funding Lux, primarily reflect our view that improving economic conditions in Italy could potentially enhance Mediobanca's projected profitability and capitalization. The positive outlook also mirrors that on Italy.

In our base-case scenario, we anticipate that Mediobanca's stronger-than-peer operating performance will sustain its internal capital generation. As a result of the bank's sound revenue generation, outstanding cost efficiency, and contained credit losses, we expect the RAC ratio to remain 9.0%-9.5%, at least until 2024. This includes the bank's planned distributions to its shareholders. In addition, if we conclude that economic risks for Italian banks have diminished and upgrade the sovereign, this could add up to about 80 bps to our RAC ratio projections.

Upside scenario

We could raise the long-term rating on Mediobanca and MB Funding Lux if we take a similar action on Italy and we conclude that the bank's operating profitability and overall creditworthiness have strengthened. This would most likely happen if we perceive that domestic economic conditions have improved, resulting in our projections for Mediobanca's RAC ratio sustainably exceeding the 10% threshold over the next two years, while its risk profile remains resilient and its operating performance keeps exceeding that of peers.

Downside scenario

We could revise the outlook back to stable if we take a similar action on the sovereign and/or if we became less confident about the positive effects of Italy's economic performance on banks' balance sheets, thus undermining the potential upside for Mediobanca's creditworthiness. In addition, we could take a negative rating action if we conclude that the bank's strategy has shifted to become substantially more aggressive or risky.

Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on Mediobanca's hybrids from the lower of the SACP and ICR. Therefore, if we raise the ratings on Mediobanca, we would also raise the ratings on the bank's rated subordinated debt obligations.

FinecoBank SpA

The positive outlook on Fineco reflects our view that in the next 12-24 months the bank's creditworthiness will likely benefit from the more benign economic conditions in Italy. The positive outlook also mirrors that on Italy.

In our base-case scenario, we anticipate that Fineco's operating performance will remain stronger than most peers'. This stems from our view of the bank's more diversified revenue base, better cost efficiency, owing to its digitally innovative business model, and expected lower credit losses over the next two years. We therefore expect Fineco's RAC ratio to be 9.0%-9.5% until year-end 2023. This is despite the bank's plans to distribute excess capital to shareholders. In addition, if we conclude that economic risks for Italian banks have diminished and upgrade the sovereign, this could add up to about 140 bps to our RAC ratio projections.

Upside scenario

We could raise the long-term rating on Fineco if we take a similar action on Italy and we conclude that the bank's creditworthiness has strengthened. This would most likely happen if we perceive that domestic economic conditions have improved, resulting in our projections on Fineco's RAC ratio sustainably exceeding the 10% threshold over the next two years, while the bank's risk profile remains better than that of peers.

Downside scenario

We could revise the outlook back to stable if we take a similar action on the sovereign and/or if we became less confident about the positive effects of Italy's economic performance on banks' balance sheets, thus undermining the potential upside for Fineco's creditworthiness.

Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on Fineco's hybrids from the lower of the SACP and ICR. Therefore, if we raise the ratings on Fineco, we would also raise the ratings on the bank's rated subordinated debt obligations.

Istituto per il Credito Sportivo

The positive outlook on ICS reflects brighter economic prospects in Italy and ICS's improving asset quality profile.

Upside scenario

We could upgrade ICS over the next 12-24 months if we conclude that Italian banking sector operating conditions have significantly improved, and ICS's asset quality indicators continue converging toward the domestic banking sector average. This would likely be evidenced by manageable credit losses over the forecast horizon as well as continued improvements in ICS's legacy single-name concentration.

Downside scenario

We would revise the outlook to stable if we believe the Italian banking sector's economic prospects have not materially improved beyond our base case, or if we conclude that economic spillover from the pandemic has resulted in significant asset quality deterioration.

BICRA Score Snapshot

	To	From
BICRA group	5	5
Economic risk	6	6
Economic resilience	Intermediate risk	Intermediate risk
Economic imbalances	High risk	High risk
Credit risk in the economy	High risk	High risk
Trend	Positive	Stable
Industry risk	5	5
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	High risk	High risk
Systemwide funding	Intermediate risk	Intermediate risk
Trend	Stable	Stable

Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Italy Outlook Revised To Positive From Stable On Commitment To Pro-Growth Reforms; 'BBB/A-2' Ratings Affirmed, Oct. 22, 2021
- Economic Outlook Europe Q4 2021: A Faster-Than-Expected Liftoff, Sept. 23, 2021
- As Near-Term Risks Ease, The Relentless Profitability Battle Lingers For European Banks, June 24, 2021

Ratings List

*******FinecoBank S.p.A.*******

Ratings Affirmed; Outlook Action

	To	From
FinecoBank S.p.A.		
Issuer Credit Rating	BBB/Positive/A-2	BBB/Stable/A-2

*******Intesa Sanpaolo SpA*******

Ratings Affirmed

Intesa Sanpaolo SpA

Certificate Of Deposit		
Local Currency	BBB/A-2	
Foreign Currency	BBB/-	

Intesa Sanpaolo SpA

Fideuram - Intesa Sanpaolo Private Banking SpA

Resolution Counterparty Rating BBB+/-/A-2

Ratings Affirmed; Outlook Action

To From

Intesa Sanpaolo SpA

Fideuram - Intesa Sanpaolo Private Banking SpA

Issuer Credit Rating BBB/Positive/A-2 BBB/Stable/A-2

***** Istituto per il Credito Sportivo *****

Ratings Affirmed; Outlook Action

To From

Istituto per il Credito Sportivo

Issuer Credit Rating BBB-/Positive/A-3 BBB-/Stable/A-3

***** Mediobanca SpA *****

Ratings Affirmed

Mediobanca SpA

Certificate Of Deposit

Foreign Currency BBB

Local Currency BBB/A-2

Mediobanca SpA

MB Funding Lux S.A.

Resolution Counterparty Rating BBB+/-/A-2

Ratings Affirmed; Outlook Action

To From

Mediobanca SpA

MB Funding Lux S.A.

Issuer Credit Rating BBB/Positive/A-2 BBB/Stable/A-2

***** UniCredit SpA *****

Ratings Affirmed

UniCredit SpA

Certificate Of Deposit

Foreign Currency BBB/A-2

Local Currency BBB/-

Resolution Counterparty Rating BBB+/-/A-2

Ratings Affirmed; Outlook Action

To From

UniCredit SpA

Issuer Credit Rating BBB/Positive/A-2 BBB/Stable/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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