Research Update:

Italy-Based FinecoBank Outlook Revised To Stable After Sovereign Action; Ratings Affirmed At 'BBB/A-2'

October 29, 2020

Overview

- On Oct. 23, 2020, we revised the outlook on our 'BBB/A-2' long- and short-term sovereign ratings on Italy to stable from negative.

- We expect FinecoBank SpA (Fineco) to be less exposed to risks related to the highly uncertain macroeconomic environment in Italy than purely commercial banks, due to its digitally innovative and well-diversified business model, which is only marginally focused on lending activities.

- We are therefore revising our outlook on Fineco to stable from negative to reflect the sovereign rating action. We are also affirming our 'BBB' long-term and 'A-2' short-term issuer credit ratings on Fineco.

- The stable outlook on Fineco reflects our view that the bank's resilient business model and limited credit risk will allow it to absorb the impact of the difficult domestic economic conditions while maintaining its creditworthiness.

Rating Action

On Oct. 29, 2020, S&P Global Ratings revised the outlook on Italian FinecoBank SpA (Fineco) to stable from negative. At the same time, we affirmed our 'BBB/A-2' long- and short-term issuer credit ratings on Fineco.

Rationale

The affirmation follows the recent rating action on Italy (see "Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2'," published Oct. 23, 2020), as well as an update on our macroeconomic view of Italy. We consider that the outlook revision of Italy to stable diminishes a related risk for the ratings on Fineco as we believe that Fineco could not be rated above the
sovereign, given its large concentration in Italy and exposure to Italian economic risk. We currently project Italy's GDP will fall by 8.9% in 2020, gradually bouncing back from 2021 and 2022 and returning to 2019's level only in 2023, although downside risks to our projections remain.

The rating action on Fineco also reflects our view that Fineco's particular business model--focused on asset-gathering and private banking activities, online brokerage, and banking services, with less exposure to credit risk--makes it less vulnerable to COVID-19 disruption than Italian traditional commercial banks.

In particular, we expect Fineco's performance to remain resilient through 2020 and into 2021, thanks to its robust revenue base, contained cost of risk, and rather competitive cost-to-income ratio. These factors stem from the bank's better business diversification between more conventional business lines and countercyclical ones, which contributes to Fineco's more resilient operating performance through the credit cycle. Compared with most Italian banks that still offer traditional services and use traditional sales channels, Fineco's level of digital innovation and cost efficiency provide the bank with a significant competitive advantage, in our view. We also believe the bank's focus on niche products and services, and its stable customer base, will continue to support its business prospects in 2020-2021.

Furthermore, the bank's marginal lending activity supports high asset quality because it is focused on a wealthy customer base. We expect that the bank's cost of risk will remain relatively low, averaging about 10 basis points (bps)-15 bps over the next couple of years, compared with the industry average level of 100 bps-140 bps. We therefore estimate the bank's risk-adjusted capital (RAC) ratio will remain comfortably above 7% over the next couple of years.

**Outlook**

The stable outlook on Fineco reflects our view that the bank's innovative business model makes its creditworthiness more resilient than that of traditional domestic commercial banks amid still-difficult economic conditions in Italy. In our base-case scenario, we anticipate that Fineco's operating performance will remain stronger than most peers' as a result of a more diversified revenue base and expected lower credit losses over the next two years.

We therefore forecast that the bank's retained earnings will allow it to maintain its RAC ratio comfortably above 7% over the next 18-24 months.

**Upside scenario**

We could raise the ratings on Fineco if we were to take a similar action on Italy and if domestic economic conditions have improved, thus allowing the bank's business model to further benefit its creditworthiness.

**Downside scenario**

We would lower our rating on Fineco if we were to take a similar action on the sovereign. Although we do not see any particular pressure on its stand-alone credit profile at this stage, we could also lower our ratings if we perceived that the bank had become unable to maintain a strong operating performance through the credit cycle.
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Ratings Score Snapshot

**FinecoBank SpA Ratings Score Snapshot**

<table>
<thead>
<tr>
<th></th>
<th>To</th>
<th>From</th>
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</thead>
<tbody>
<tr>
<td>Issuer Credit Rating</td>
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<td>Additional Factors</td>
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</table>

**Related Criteria**

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 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
Related Research

- EMEA Financial Institutions Monitor 4Q2020: Banks Prepare As Winter Is Coming, Oct. 23, 2020
- Research Update: Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2', Oct. 23, 2020
- European Bank Asset Quality: Half-Year Results Tell Only Half The Story, Sept. 28, 2020
- FinecoBank, July 23, 2020
- Outlooks On Most Italian Banks Now Negative On Deepening COVID-19 Downside Risks, April 29, 2020
- Research Update: Italy-Based FinecoBank 'BBB/A-2' Ratings Affirmed; Negative Outlook Mirrors That On The Sovereign, April 29, 2020

Ratings List

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<thead>
<tr>
<th>Issuer Credit Rating</th>
<th>To</th>
<th>From</th>
</tr>
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<td>FinecoBank S.p.A.</td>
<td>BBB/ Stable/A-2</td>
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</tr>
</tbody>
</table>

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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