

Outlook On 11 Italian Banks Revised To Stable From Positive Following Similar Action On Sovereign; Ratings Affirmed

July 29, 2022

- On July 26, 2022, S&P Global Ratings revised its outlook on Italy to stable from positive and affirmed its unsolicited 'BBB/A-2' long- and short-term sovereign credit ratings.
- We believe the dissolution of the national unity government at an uncertain time for the European economy poses a risk to Italian GDP growth, which has lagged that of other G-7 economies for many years.
- Therefore, we now regard the economic risk trend for Italian banks as stable, compared to positive previously.
- As a result, we revised the outlooks to stable from positive and affirmed our ratings on Italian banks Intesa Sanpaolo SpA and its core subsidiary Fideuram - Intesa Sanpaolo Private Banking SpA; UniCredit SpA; Mediobanca SpA and its core subsidiary MB Funding Lux S.A.; FinecoBank SpA; Banca Mediolanum SpA; FCA Bank SpA; Istituto per il Credito Sportivo SpA; Banca Nazionale del Lavoro SpA; and Bank of New York Mellon S.A./N.V. (Italian Branch).
- The stable outlooks mirror that on Italy and reflect our belief that Italian banks are likely to face less favorable economic conditions ahead amid high inflation, rising interest rates, and slowing economic activity.

MILAN (S&P Global Ratings) July 29, 2022--S&P Global Ratings said today that it took the following rating actions:

- We revised our outlook on Bank of New York Mellon S.A./N.V. (Italian Branch) (BNY Italian Branch) to stable from positive and affirmed our 'A+/A-1' long- and short-term issuer credit ratings (ICRs).
- We revised the outlooks on Banca Nazionale del Lavoro SpA (BNL) to stable from positive and affirmed our ratings, including our 'BBB+/A-2' long- and short-term ICRs.
- We revised our outlooks on Intesa Sanpaolo SpA, Fideuram - Intesa Sanpaolo Private Banking SpA, UniCredit SpA, Mediobanca SpA, MB Funding Lux S.A., FinecoBank SpA, Banca Mediolanum SpA, and FCA Bank SpA to stable from positive and affirmed our ratings, including our 'BBB/A-2' long- and short-term ICRs, on the entities.
- We revised our outlook on government-related entity (GRE) Istituto per il Credito Sportivo SpA (ICS) to stable from positive and affirmed our 'BBB-/A-3' long- and short-term ICRs.

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The outlook revisions follow a similar sovereign rating action on Italy (unsolicited, BBB/Stable/A-2) and reflect our opinion that, while the domestic economy will continue expanding in 2022 and 2023, growth is likely to be slower compared with our previous expectations (see "Italy Outlook Revised To Stable From Positive On Risks To Reforms; Ratings Affirmed," published July 26, 2022, on RatingsDirect). The recent resignation of Prime Minister Mario Draghi and the consequent earlier-than-expected election pose risks to the Italian economy and public finances from a slowdown or reversal in the delivery of critical reforms, including those attached to planned disbursements of the EU Recovery and Resilience Facility. The sovereign outlook revision also reflects high inflation and risks to Italy's energy supplies, which make it challenging to project the performance of public finances and the economy.

Italian banks' creditworthiness remains closely intertwined with that of the sovereign and domestic economic dynamics. Firstly, the domestic banking sector has large holdings of Italian government bonds in their securities portfolios. Secondly, banks' business and financial performance has a strong correlation with the domestic economy. Finally, the cost of Italian banks' wholesale funding has historically been highly correlated with that of the sovereign. For these reasons, we believe that the sovereign's creditworthiness continues to affect, to different extents, Italian banks' credit profiles. Therefore, we now regard the economic risk trend for Italian banks as stable, compared to positive previously.

High inflation, tightening monetary policy, and the economic slowdown will likely result in asset-quality deterioration. We anticipate that Italian banks' nonperforming exposures (NPEs) will increase somewhat in 2022-2023 as economic conditions become less favorable and some previously implemented support measures, including debt moratoriums, expire. Nevertheless, we believe the deterioration will remain manageable for most banks. We therefore expect credit losses in 2022-2023 will remain just above the norm for Italian banks, at 90-100 basis points (bps) per year. These levels still remain much lower than those in previous crises. This is primarily due to the Italian banking sector's significant progress in the past few years in reducing the stock of legacy NPEs, the gradual strengthening of private sector creditworthiness, and the correction of past imbalances in the banking system. In total, the system has reduced the stock of NPEs by €260 billion since 2015. Moreover, banks' expected loss rates in the NPE portfolio will also decrease with multiyear government guarantees on about €300 billion of customer loans, mostly to riskier small and midsize enterprises. We don't take into account this potential benefit in our estimates, but we acknowledge that these guarantees, if triggered, could partially reduce credit losses expectations.

Rising interest rates are likely to benefit Italian banks' profitability prospects, but their performance will continue to vary significantly. Banks' interest margins are highly sensitive to rising euro interest rates, as a 100-bps parallel rise would strengthen banks' net interest income by 10%-15% (see "When Rates Rise: Not All European Banks Are Equal," published June 8, 2022). Growing revenue should enhance banks' capacity to absorb credit losses and still post rising net income. However, high inflation, targeted long-term refinancing operations' gradual repayment and still-meaningful credit losses, will weigh on bottom-line results, reducing the potential benefit from interest rates increase. More importantly, the level of the operating performance and the impact of the above-mentioned variables will differ significantly among banks. Those that face more structural challenges (small size, greater business and geographic concentration, modest efficiency, or lower digitalization) are likely to suffer the most from reduced economic expansion prospects.

Consequently, we revised our outlooks on Intesa and its core subsidiary Fideuram, Unicredit, Mediobanca and its core subsidiary MB Funding Lux, FincoBank, Banca Mediolanum, FCA Bank, ICS, BNL, and BNY Italian Branch. The stable outlooks reflect the lower upside we see to their overall stand-alone creditworthiness amid more challenging economic conditions. The outlooks

also mirror that on Italy, since we could only upgrade them if we upgrade the sovereign. Under a hypothetical sovereign default scenario, we consider it unlikely that any of the banks rated at the sovereign level would have sufficient loss-absorption and recapitalization capacity to avoid default on senior preferred obligations.

OUTLOOKS

Intesa Sanpaolo SpA And Fideuram

Primary analyst: Mirko Sanna

The stable outlook on Intesa and its core subsidiary Fideuram -Intesa Sanpaolo Private Banking mirrors that on the sovereign and reflects our view that the bank's credit profile will remain resilient over the next two years. We expect Intesa's capitalization, measured by our RAC ratio, will moderately improve to 6.0%-6.5% by end-2024 from 5.9% at end-2021, while the bank's asset-quality metrics show moderate deterioration amid the Italian economy slowdown and its manageable exposure to Russia and Ukraine.

Downside scenario: We could lower the ratings on Intesa if we lowered the long-term rating on Italy. We consider that, given the bank's high exposure to Italy and large holding of Italian government securities, Intesa will not withstand a hypothetical sovereign default stress scenario.

Upside scenario: We could raise the ratings if we raised our long-term sovereign ratings on Italy and concluded that the bank's creditworthiness and solvency had strengthened. The latter scenario would most likely be linked to lower economic risks we might see in Italy, resulting in our projected RAC ratio increasing 80-90 bps and hovering near 7% overall. For an upgrade, we would also expect Intesa to maintain strong loss absorption and better-than-peers' asset-quality metrics.

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 credit profile (SACP) and ICR. Therefore, if we were to lower the ICR or revised downward our assessment of the SACP, we would also lower the ratings on its rated additional Tier 1 and Tier 2, and senior nonpreferred instruments.

Ratings score snapshot:

Issuer credit rating: BBB/Stable/A-2

Resolution counterparty rating: BBB+/A-2

SACP: bbb

Anchor: bbb-

- Business position: Strong (+1)
- Capital and Earnings: Moderate (-1)
- Risk position: Strong (+1)
- Funding and Liquidity: Adequate and Adequate (0)

- Comparable rating analysis: 0

Support: 0

- ALAC support: 0
- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

ESG credit indicators: E-2, S-2, G-2

Unicredit SpA

Primary analyst: Regina Argenio

The stable outlook on Unicredit mirrors that on the sovereign and reflects our view that the bank's credit profile will remain resilient over the next two years. We anticipate the bank's risk-adjusted capital (RAC) ratio will remain above 7%, supported by gradual recovery in its profitability while asset-quality metrics moderately deteriorate amid less favorable economic conditions in the main areas where it operates.

Downside scenario: We could lower the ratings on UniCredit if we lowered the long-term rating on Italy. Given the bank's exposure to Italy, we consider that Unicredit would not withstand a hypothetical scenario of sovereign default.

Upside scenario: We could raise the long-term ratings by one notch if we raised that on Italy and concluded that economic risk in the country had decreased, helping UniCredit to enhance its credit profile. In this scenario, we would upgrade the bank if its asset quality improves while maintaining a RAC ratio comfortably above 7%.

Hybrids: We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on Unicredit's hybrids from the lower of the SACP and ICR. Therefore, if we were to lower the ICR or revised downward our assessment of the SACP, we would also lower the ratings on its rated additional Tier 1 and Tier 2, and senior nonpreferred instruments.

Ratings score snapshot

Issuer credit rating: BBB/Stable/A-2

Resolution counterparty rating: BBB+/A-2

SACP: bbb

Anchor: bbb

- Business position: Strong (+1)
- Capital and Earnings: Adequate (0)
- Risk position: Moderate (-1)

- Funding and Liquidity: Adequate and Adequate (0)
- Comparable rating analysis: 0

Support: 0

- ALAC support: 0
- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

ESG credit indicators: E-2, S-2, G-2

Mediobanca SpA

Primary analyst: Francesca Sacchi

The stable outlooks on Mediobanca and its core subsidiary, MB Funding Lux, mirror that on Italy and reflect our view that Mediobanca's credit profile will remain resilient over the next two years. In our base-case scenario, we anticipate the bank's operating performance will remain stronger than most domestic peers', because of a more diversified revenue base and expected lower-than-sector-average credit losses. We also expect Mediobanca's RAC ratio will remain at 9.0%-9.5% through 2024, including the bank's planned distribution policy to its shareholders.

Downside scenario: We could lower the ratings on Mediobanca and MB Funding Lux if we lower the long-term rating on Italy. This is because we believe the bank is unlikely to withstand the effects of a hypothetical sovereign default stress scenario, given its high exposure to the Italian economy. In addition, a negative rating action could result if we concluded that the economic and operating conditions in Italy have deteriorated, materially undermining Mediobanca's creditworthiness.

Upside scenario: We could consider an upgrade if we raised our long-term rating on Italy and concluded that Mediobanca's creditworthiness and solvency has strengthened. The latter scenario would most likely be linked to lower economic risks we might see in Italy, resulting in our projections for the bank's RAC ratio moving to 10% over the next two years, its risk profile remaining resilient, and its operating performance continuing to exceed its peers'.

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 were to lower the ICR or revised downward our assessment of the SACP, we would also lower the rating on the bank's rated subordinated debt.

Ratings score snapshot

Issuer credit rating: BBB/Stable/A-2

Resolution counterparty rating: BBB+/A-2

SACP: bbb

Anchor: bbb-

- Business position: Adequate (0)
- Capital and Earnings: Adequate (0)
- Risk position: Strong (+1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable rating analysis: 0

Support: 0

- ALAC support: 0
- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

ESG credit indicators: E-2, S-2, G-2

FinecoBank SpA

Primary analyst: Francesca Sacchi

The stable outlook on Fineco mirrors that on Italy and reflects our view that the bank's credit profile will remain resilient over the next two years. We anticipate Fineco's resilient revenue prospects, very low cost of credit risk, and outstanding cost efficiency will continue supporting its creditworthiness. As a result, we expect the bank's RAC ratio to be 9.0%-9.5% by end-2024.

Downside scenario: We could lower the ratings on Fineco if we lower the long-term rating on Italy. In addition, a negative rating action could result if we concluded that the economic and operating conditions in Italy have deteriorated, materially undermining Fineco's creditworthiness.

Upside scenario: We could consider an upgrade if we raised our long-term rating on Italy and concluded that Fineco's creditworthiness and solvency has strengthened. The latter scenario would most likely be linked to lower economic risks we might see in Italy, resulting in our projections for Fineco's RAC ratio sustainably exceeding the 10% threshold over the next two years, its earnings remaining strong and higher than European banks' average, and its risk profile remaining better than peers'.

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 were to lower the ICR or revised downward our assessment of the SACP, we would also lower the rating on the bank's rated additional Tier 1 instruments.

Ratings score snapshot

Issuer credit rating: BBB/Stable/A-2

SACP: bbb

Anchor: bbb-

- Business position: Adequate (0)
- Capital and Earnings: Adequate (0)
- Risk position: Strong (+1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable rating analysis: 0

Support: 0

- ALAC support: 0
- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

ESG credit indicators: E-2, S-2, G-2

Banca Mediolanum SpA

Primary analyst: Mirko Sanna

The stable outlook on Banca Mediolanum mirrors that on the sovereign and reflects our opinion the bank will remain resilient over the next two years. This primarily stems from the group's limited exposures to credit risk, sound earning capacity compared with that of peers, and strength of its insurance operations. Even excluding the contribution of any market-related commissions, we anticipate Mediolanum's return on equity will likely exceed 15%, well above the average 5% we expect for Italian banks and better than that of most European financial institutions. We project the bank's RAC ratio to hover near 7% in 2023.

Downside scenario: We could lower the ratings over the next 12-24 months if we were to take a similar action on Italy. Similarly, we could lower the ratings if we were to see meaningful deterioration in the economic and operating conditions in Italy or in the bank's credit portfolio or heightened reputational risks.

Upside scenario: We could upgrade Mediolanum if we were to upgrade Italy and conclude that economic risks for Italian banks have diminished and Mediolanum's stand-alone creditworthiness strengthened. This would likely stem from our view that bank's profitability prospect have improved, combined with it maintaining strong asset-quality metrics and control of its operational risk while preserving capitalization.

Ratings score snapshot

Issuer credit rating: BBB/Stable/A-2

SACP: bbb

Anchor: bbb-

- Business position: Adequate (0)
- Capital and earnings: Adequate (0)
- Risk position: Strong (+1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable ratings analysis: 0

Support: 0

- ALAC support: 0
- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

ESG credit indicators: E-2, S-2, G-2

FCA Bank SpA

Primary analyst: Alessandro Ulliana

The stable outlook on FCA Bank mirrors that on Italy. It reflects our opinion that the bank will likely receive extraordinary support from parent Crédit Agricole SA (CASA) in case of stress. However, this support will not allow FCA Bank to withstand a hypothetical sovereign default stress scenario.

Downside scenario: We could lower the ratings if we downgraded Italy. A downward revision of FCA Bank's SACP--for example, due to a deterioration in the economies where the bank operates that could harm its profitability and capitalization, or weaker business prospects following the separation from Stellantis--would not lead to a downgrade, absent a sovereign downgrade and provided FCA Bank remained a strategically important subsidiary for CASA. This is because we would incorporate an additional notch for support from CASA.

Upside scenario: We could raise the ratings on FCA Bank in the next 12-24 months if we upgraded Italy, provided our view on potential support from CASA had not changed.

Ratings score snapshot

Issuer credit rating: BBB/Stable/A-2

SACP: bbb-

Anchor: bbb

- Business position: Constrained (-2)
- Capital and earnings: Strong (+1)

- Risk position: Adequate (0)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable ratings analysis: 0

Support: +1

- ALAC support: 0
- GRE support: 0
- Group support: +1
- Sovereign support: 0

Additional factors: 0

ESG credit indicators: E-2, S-2, G-2

Istituto Per Il Credito Sportivo

Primary analyst: Alessandro Ulliana

The stable outlook reflects our expectation that ICS will maintain its solid capitalization over the next 12-24 months and its asset-quality indicators will continue improving.

Downside scenario: We could lower the ratings if we perceived that the Italian government's commitment toward ICS had diminished. This could be demonstrated by a request for a capital reduction, reduced funding, or reduced business support. We could also consider a downgrade if the economic conditions for banks operating in Italy deteriorated significantly beyond our base-case scenario and we believed this could harm ICS' asset quality and capitalization.

Upside scenario: We could upgrade ICS if we concluded that the Italian banking sector's operating conditions have significantly improved and ICS' asset-quality indicators continued converging toward the domestic banking sector average. This would likely follow manageable credit losses over the forecast horizon and continued improvements in the bank's NPE ratio.

Ratings score snapshot

Issuer credit rating: BBB-/Stable/A-3

SACP: bbb-

Anchor: bbb-

- Business position: Moderate (-1)
- Capital and Earnings: Very Strong (+2)
- Risk position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable rating analysis: 0

Support: 0

- ALAC support: 0
- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

ESG credit indicators: E-2, S-1, G-2

Banca Nazionale del Lavoro SpA

Primary analyst: Alessandro Ulliana

The stable outlook on BNL mirrors that on Italy. This reflects our view that we would not rate BNL more than one notch above the sovereign credit rating.

Issuer credit rating: BBB+/Stable/A-2

Downside scenario: We may lower our ratings on the bank following a similar action on the sovereign over the next 12-24 months.

Upside scenario: We could raise our ratings if we took the same action on Italy.

Bank of New York Mellon S.A./N.V. (Italian Branch)

Primary analyst: Clement Collard

The stable outlook on BNY Italian Branch mirrors that on Italy. This reflects our view that we would not rate BNY Italian Branch more than four notches above the sovereign credit rating.

Issuer credit rating: A+/Stable/A-1

Downside scenario: We might lower our ratings on the bank following a similar action on the sovereign over the next 12-24 months.

Upside scenario: We could raise our ratings if we took the same action on Italy.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 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
- 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. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Italy Outlook Revised To Stable From Positive On Risks To Reforms; Ratings Affirmed, July 26, 2022
- Global Banks Outlook Midyear 2022: Tougher Tests Ahead, July 21, 2022
- Economic Research: Economic Outlook Eurozone Q3 2022: Inflation Dulls The Post-COVID Bounce, June 27, 2022
- When Rates Rise: Not All European Banks Are Equal, June 8, 2022
- Banking Industry Country Risk Assessment: Italy, May 25, 2022
- Positive Outlooks Maintained On UniCredit, Intesa Sanpaolo, Mediobanca, FinecoBank, Credito Sportivo; Ratings Affirmed, April 27, 2022

BICRA Score Snapshot*

Italy

	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	Stable	Positive
Industry risk	5	5
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	High risk	High risk
Systemwide funding	Intermediate risk	Intermediate risk

Outlook On 11 Italian Banks Revised To Stable From Positive Following Similar Action On Sovereign; Ratings Affirmed

	To	From
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.

Ratings List

***** Banca Nazionale del Lavoro SpA *****

Ratings Affirmed

Banca Nazionale del Lavoro SpA

Resolution Counterparty Rating A-/--/A-2

Ratings Affirmed; Outlook Action

	To	From
Banca Nazionale del Lavoro SpA		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Positive/A-2

***** Banca Mediolanum *****

Ratings Affirmed; Outlook Action

	To	From
Banca Mediolanum		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Positive/A-2

***** Bank of New York Mellon Corp. *****

Ratings Affirmed

Bank of New York Mellon S.A./N.V. (Italian Branch)

Resolution Counterparty Rating A+/--/A-1

Ratings Affirmed; Outlook Action

	To	From
Bank of New York Mellon S.A./N.V. (Italian Branch)		
Issuer Credit Rating	A+/Stable/A-1	A+/Positive/A-1

***** Credit Agricole S.A. *****

Ratings Affirmed; Outlook Action

	To	From
FCA Bank SpA		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Positive/A-2

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

Ratings Affirmed; Outlook Action

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

Outlook On 11 Italian Banks Revised To Stable From Positive Following Similar Action On Sovereign; Ratings Affirmed

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

Ratings Affirmed

Intesa Sanpaolo SpA

Resolution Counterparty Rating BBB+/-/A-2

Intesa Sanpaolo SpA

Ratings Affirmed; Outlook Action

	To	From
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Intesa Sanpaolo SpA

Issuer Credit Rating	BBB/Stable/A-2	BBB/Positive/A-2
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Fideuram - Intesa Sanpaolo Private Banking SpA

Issuer Credit Rating	BBB/Stable/A-2	BBB/Positive/A-2
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***** Istituto per il Credito Sportivo *****

Ratings Affirmed; Outlook Action

	To	From
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Istituto per il Credito Sportivo

Issuer Credit Rating	BBB-/Stable/A-3	BBB-/Positive/A-3
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***** Mediobanca SpA *****

Ratings Affirmed

MB Funding Lux S.A.

Mediobanca SpA

Resolution Counterparty Rating BBB+/-/A-2

Mediobanca SpA

Ratings Affirmed; Outlook Action

	To	From
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MB Funding Lux S.A.

Mediobanca SpA

Issuer Credit Rating	BBB/Stable/A-2	BBB/Positive/A-2
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***** UniCredit SpA *****

Ratings Affirmed

UniCredit SpA

Resolution Counterparty Rating BBB+/-/A-2

Ratings Affirmed; Outlook Action

	To	From
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UniCredit SpA

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

Outlook On 11 Italian Banks Revised To Stable From Positive Following Similar Action On Sovereign; Ratings Affirmed

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