S&P Global
Ratings

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Positive Outlooks Maintained On UniCredit, Intesa Sanpaolo, Mediobanca, FinecoBank, Credito Sportivo; Ratings Affirmed

April 27, 2022

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- On April 22, 2022, S&P Global Ratings affirmed its 'BBB' long-term rating on Italy and maintained the positive outlook, reflecting Italian authorities' comprehensive pro-growth reforms and the potential benefit from the disbursement of the Next Generation EU funds, worth almost 10% of GDP.
- We believe these measures could be sufficient to offset the risks to growth posed by the conflict in Ukraine.
- Meanwhile, Italian banks entered 2022 with better asset quality metrics and capitalization than we anticipated.
- We consequently affirmed our 'BBB/A-2' ratings on UniCredit SpA, Intesa Sanpaolo SpA, Mediobanca, and FinecoBank, and our 'BBB-/A-3' ratings on Istituto per il Credito Sportivo. We maintained our positive outlooks on all these ratings.

MILAN (S&P Global Ratings) April 27, 2022--S&P Global Ratings said today that it has taken the following rating actions:

- Affirmed the 'BBB/A-2' ratings on UniCredit SpA with a positive outlook.
- Affirmed the 'BBB/A-2' ratings on Intesa Sanpaolo SpA and its core subsidiary Fideuram - Intesa Sanpaolo Private Banking SpA with a positive outlook.
- Affirmed the 'BBB/A-2' ratings on Mediobanca SpA and its core subsidiary MB Funding Lux S.A. with a positive outlook.
- Affirmed the 'BBB/A-2' ratings on FinecoBank SpA with a positive outlook.
- Affirmed the 'BBB-/A-3' ratings on Istituto per il Credito Sportivo with a positive outlook.

The positive outlooks primarily mirror that on the sovereign and also reflect our view that most Italian banks are in a stronger position to manage a likely near-term economic slowdown. We see a positive trend for economic risk in Italy, stemming from our view that medium-term economic prospects in Italy remain positive and continue supporting Italian banks, partly thanks to the Next Generation EU funds amounting to about 10% of GDP. We expect Italy's GDP to expand by 3.1% in 2022 and 2.1% in 2023, although the consequences of the Russia-Ukraine conflict pose risks to Italy's economic activity (see "Italy 'BBB/A-2' Ratings Affirmed; Outlook Positive," published April 22, 2022). The positive trend also factors in our opinion that the banking sector has now largely absorbed the asset quality imbalances accumulated over the past decade and stands in a strong position to face potential challenges ahead. In December 2021, Italian banks' stock of nonperforming exposures (NPEs) net of provisions stood just above 2% of customer loans, significantly better than we previously anticipated. This is primarily the result of the domestic and European authorities' support measures over the past two years to mitigate the repercussions of the pandemic on corporations and households. In the same period, banks further accelerated their offloading of legacy NPEs through disposals, while preserving their solvency.

Asset quality is likely to deteriorate somewhat, but government guarantees provide a significant cushion. We still expect NPEs will start rising again in 2022 and 2023, as some of the previously implemented support measures, including debt moratoriums, finally expire, and higher inflation and some tightening of financial conditions affect domestic borrowers. However, we anticipate that the deterioration will remain manageable for most banks, since imbalances in the system are gradually reducing, most corporate sectors have recovered to their pre-pandemic business levels, and private sector creditworthiness has strengthened significantly in the past few years. We thus forecast credit losses will remain just above the norm for Italian banks, at about 90-100 basis points (bps) over the next two to three years, compared with 60-65 bps reported in 2021. In addition, about €275 billion of loans granted to small and medium enterprises and corporations are largely guaranteed by the Italian sovereign, providing a cushion to future credit losses if economic conditions were to deteriorate further.

Consequently, we are maintaining our positive outlooks UniCredit, Intesa Sanpaolo, Fideuram, Mediobanca, MB Funding Lux, FinecoBank, and Istituto per il Credito Sportivo.

Given the material uncertainties deriving from geopolitical tensions and economic consequences of the Russia-Ukraine conflict, we will be closely monitoring how this could affect our expectations for economic growth as well as the potential repercussions on the banks' credit prospects.

OUTLOOKS

UniCredit SpA

The positive outlook on UniCredit SpA reflects our view that declining economic risks in Italy and a still-supportive economic environment in other countries of operations will support the bank's financial and credit profile over the next 12-24 months. The bank has strengthened its capitalization and made significant progress in cleaning up its balance sheet, for example NPEs in Italy (including non-core) declined to about 4.5% at end-2021 from about 25% in 2014. Its risk profile has therefore improved over the past few years, which will help it to face potential headwinds. We expect the group will absorb potential losses arising from its exposure to Russia while preserving its financial profile. UniCredit's exposure to Russia accounts for nearly 3% of consolidated loans.

In our base-case scenario, we anticipate a gradual improvement in pre-provisions income, amid increasing business and higher interest rates. We forecast credit losses will peak at about 100-110 bps in 2022 due to Russian exposure, and then stabilize at about 60 bps. In addition, we factor in about 15 bps for the write-off of the group's equity participation in the Russian subsidiary (AO UniCredit Bank), to reflect potential downside risk, although we acknowledge that UniCredit has not yet disclosed any specific intention to leave the country. We expect dividend distribution will significantly decline in 2022 and subsequently be about €4 billion per year. Consequently, we forecast UniCredit's risk-adjusted capital (RAC) ratio at about 7.2%-7.7% in 2024, compared with an estimated 7.9% at year-end 2021.

Upside scenario

We could raise the long-term ratings by one notch if we concluded that economic risk in Italy had reduced and that this would help UniCredit to continue enhancing its credit profile. Specifically, this could occur if UniCredit preserves its enhanced asset quality from significant deterioration, including that connected with its direct and indirect exposure to Russia, while maintaining a RAC ratio comfortably above 7%.

Downside scenario

We could revise the outlook to stable if we concluded that economic risks in Italy had not improved, if we saw a material economic slowdown in the group's other countries of operation, or if we anticipated higher losses arising from its Russian exposures. If we revised the outlook on Italy to stable, this might not immediately trigger the same action on UniCredit, as long as the bank continued to enhance its credit profile and to maintain 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 hybrid debt--namely senior nonpreferred, subordinated, and junior subordinated notes--from the lower of two potential starting points: the stand-alone credit profile (SACP) and the issuer credit rating (ICR). Therefore, if we raised the ICR and revise up the SACP, we would also raise the ratings on the bank's rated subordinated debt obligations.

Ratings score snapshot

Issuer credit rating: BBB/Positive/A-2

Resolution counterparty rating: BBB+/A-2

Stand-alone credit profile: 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

Intesa Sanpaolo SpA

The positive outlook on Intesa Sanpaolo and its core subsidiary Fideuram - Intesa Sanpaolo Private Banking SpA mirrors that on Italy and reflects our view that diminishing economic risks faced by Italian banks could enhance Intesa's capitalization and overall creditworthiness in the coming years. Intesa entered 2022 with a clean balance sheet after reducing its stock of NPEs, net of provisions, to just above 1%. We expect the bank will maintain resilient asset quality metrics over the next two years, despite some contained deterioration. In particular, exposure to Russia and Ukraine looks manageable, at about 1% of total exposures, although the related losses will reduce the bank's earnings in 2022, in our opinion. We assume credit losses will peak at 80 bps in 2022, driven by provisions on Russia exposures, and will decrease to about 50-60 basis points in 2023 and 2024. We expect the bank's profitability to remain above the median of the top 50 European banks, with return on equity (ROE) of about 9% in 2023.

Upside scenario

We could upgrade Intesa over the next 24 months if we raised our rating 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 by 80-90 bps and hovering around 7% overall. For an upgrade, we would also expect Intesa to maintain strong loss absorption and better-than-peer asset quality metrics.

Downside scenario

We could revise our outlook to stable if we took a similar action on Italy. We consider that the bank would not be able to withstand a hypothetical scenario of sovereign stress, given its high exposure to the country and large holding of Italian government securities. We could also revise the outlook on the bank to stable if we concluded that economic risks faced by banks in Italy had not diminished and, contrary to our expectations, Intesa's asset quality materially deteriorated.

Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on Intesa's hybrid debt from the lower of the SACP and ICR. Therefore, if we raised the ratings on Intesa, we would also raise the ratings on the bank's rated additional tier 1, tier 2, and senior nonpreferred instruments.

Ratings score snapshot

Issuer credit rating: BBB/Positive/A-2

Resolution counterparty rating: BBB+/A-2

Stand-alone credit profile: 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

Mediobanca SpA

The positive outlook on Mediobanca and its core subsidiary, MB Funding Lux, mirrors that on Italy and reflects our view that diminishing economic risks faced by Italian banks could benefit Mediobanca's overall creditworthiness in the years to come. We anticipate the bank's operating efficiency will remain outstanding, with a cost-to-income ratio at about 50% and ROE at about 8% over the next couple of years. As a result, we expect the bank's RAC ratio will remain at 9.0%-9.5% through 2024, including the bank's planned distribution policy to its shareholders.

Upside scenario

We could raise the long-term rating on Mediobanca and MB Funding Lux if we took a similar action on Italy and concluded that the bank's creditworthiness had strengthened. The latter scenario would most likely be linked to lower economic risks we might see in Italy, resulting in our projections for Mediobanca's RAC ratio moving to 10% over the next two years, its risk profile remaining resilient, and its operating performance still exceeding its peers'.

Downside scenario

We could revise the outlook back to stable if we took a similar action on the sovereign or if we became less confident about the positive effects of Italy's economic performance on banks' balance sheets, undermining the potential upside for Mediobanca's creditworthiness. In addition, we could take a negative rating action if we concluded that the bank's strategy had 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 hybrid debt from the lower of the SACP and ICR. Therefore, if we raised the ratings on Mediobanca, we would also raise the ratings on the bank's rated subordinated debt obligations.

Ratings score snapshot

Issuer credit rating: BBB/Positive/A-2

Resolution counterparty rating: BBB+/A-2

Stand-alone credit profile: 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

The positive outlook on Fineco mirrors that on Italy and reflects our view that diminishing economic risks faced by Italian banks could benefit Fineco's overall creditworthiness in the coming years. We anticipate Fineco's resilient revenue prospects, very low cost of credit risk, and outstanding cost efficiency will continue supporting its capitalization. As a result, we expect Fineco's RAC ratio to be 9.0%-9.5% by end-2024.

Upside scenario

We could raise the long-term rating on Fineco if we took a similar action on Italy and concluded that the bank's creditworthiness had 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'.

Downside scenario

We could revise the outlook to stable if we took a similar action on the sovereign or if we became less confident about the positive effects of Italy's economic performance on banks' balance sheets, 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 additional tier 1 instruments.

Ratings score snapshot

Issuer credit rating: BBB/Positive/A-2

Stand-alone credit profile: 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

Istituto Per Il Credito Sportivo (ICS)

The positive outlook reflects potential lower economic risks faced by Italian banks and ICS' improving asset quality profile. We expect loan growth will remain manageable and the bank will continue preserving its very strong solvency, with its RAC ratio at 25%-30% by end-2023.

Upside scenario

We could upgrade ICS over the next 12-24 months if we concluded that economic risks faced by Italian banks had diminished, and if ICS' asset quality indicators continued converging toward the domestic banking sector average. In particular, we would expect to see manageable credit losses over the two-year forecast horizon and continuous improvements in ICS' legacy single-name concentration.

Downside scenario

We would revise the outlook to stable if we believed the economic risks faced by Italian banks had not diminished or if we concluded that ICS' asset quality was likely to deteriorate more than we currently anticipate.

Ratings score snapshot

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

Stand-alone credit profile: 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

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9,

2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Italy 'BBB/A-2' Ratings Affirmed; Outlook Positive, April 22, 2022
- Ratings On 11 Italian Banks Affirmed Under Revised FI Criteria, Jan. 31, 2022
- Banking Industry Country Risk Assessment Update: April 2022, April 22, 2022
- The Russia-Ukraine Conflict: European Banks Can Manage The Economic Spillovers, For Now, April 21, 2022
- The Top Trends Shaping European Bank Ratings In 2022, Jan. 31, 2022
- Credit Conditions Europe Q2 2022, March 29, 2022
- Sovereign Risk Indicators, April 11, 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	Positive	Positive
Industry risk	5	5
Institutional framework	Intermediate risk	Intermediate risk

	To	From
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.

Ratings List

*** * * * * * * * * * * * * * FinecoBank S.p.A. * * * * * * * * * * * * * ***	
Ratings Affirmed	
FinecoBank S.p.A.	
Issuer Credit Rating	BBB/Positive/A-2
*** * * * * * * * * * * * * * Intesa Sanpaolo SpA * * * * * * * * * * * * ***	
Ratings Affirmed	
Intesa Sanpaolo SpA	
Fideuram - Intesa Sanpaolo Private Banking SpA	
Issuer Credit Rating	BBB/Positive/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Intesa Sanpaolo SpA	
Certificate Of Deposit	
Foreign Currency	BBB/--
Local Currency	BBB/A-2
*** * * * * * * * * * * Istituto per il Credito Sportivo * * * * * * * * * ***	
Ratings Affirmed	
Istituto per il Credito Sportivo	
Issuer Credit Rating	BBB-/Positive/A-3
*** * * * * * * * * * * * * * * Mediobanca SpA * * * * * * * * * * * * * * ***	
Ratings Affirmed	
Mediobanca SpA	
MB Funding Lux S.A.	
Issuer Credit Rating	BBB/Positive/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Mediobanca SpA	
Certificate Of Deposit	
Foreign Currency	BBB
Local Currency	BBB/A-2

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

Ratings Affirmed	
UniCredit SpA	
Issuer Credit Rating	BBB/Positive/A-2
Certificate Of Deposit	
Foreign Currency	BBB/A-2
Local Currency	BBB/A-2
Resolution Counterparty Rating	BBB+/--/A-2