

Rating Action: Moody's changes outlooks on several Italian banks to stable from negative

12 May 2021

All ratings and assessments affirmed

Paris, May 12, 2021 -- Moody's Investors Service (Moody's) today took rating actions on 10 Italian banks. The outlooks on the long-term deposit ratings and/or long-term senior unsecured debt ratings and/or long-term issuer ratings of Intesa Sanpaolo S.p.A., Banco BPM S.p.A, BPER Banca S.p.A., Mediobanca S.p.A., Credito Emiliano S.p.A., FCA Bank S.p.A., Banca Nazionale Del Lavoro S.p.A., and Cassa Centrale Banca S.p.A. were changed to stable from negative. The outlook on the long-term deposits ratings of Mediocredito Trentino-Alto Adige S.p.A. was changed to stable from negative while the long-term senior unsecured debt ratings and issuer ratings remains negative. The outlook on the long-term deposit and senior unsecured debt ratings of UniCredit S.p.A. remains stable. Concurrently, all banks' ratings and assessments have been affirmed.

Please click on this link https://www.moody.com/viewresearchdoc.aspx?docid=PBC_ARFTL446029 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

Today's rating actions reflect:

- The recovery in Italy's economy, which Moody's expects to grow by 3.7% in GDP in 2021 after a pandemic-induced contraction of 8.9% in 2020, which will provide some relief to banks' activities. Notwithstanding, Moody's expects business conditions for Italian banks to remain challenging, due to some continued restrictions and business closures, and due to sluggish loan demand and ultra-low interest rates, all of which will continue to exert pressure on banks' profitability and ability to generate capital.
- Moody's expectation that non-performing loans (NPLs) will increase in 2021, and that the cost of risk will remain elevated albeit at a lower level compared to 2020. Substantial forward-looking provisions booked last year will help absorb the impact of the increased loan defaults expected once the coronavirus-related loan moratoria have expired. Italian banks' NPLs fell to 4.1% of gross loans in December 2020 from 6.7% in 2019, and Moody's expects that continued government support in various forms, including loan guarantees, coupled with continuing NPL disposals, will partly offset the deterioration in asset quality.
- Moody's expectation that Italian banks affected by today's rating action are well capitalized, which would allow them to absorb further asset quality deterioration. Furthermore, Moody's expects profitability to remain burdened by still-high loan loss provisions, high operating costs, and net interest income under pressure due to ultra-low interest rates.
- Italian banks' funding and liquidity conditions are currently stable in particular thanks to the ongoing support from the European Central Bank (ECB) through the Targeted Long-Term Refinancing Operations (TLTRO) programme, which ensures abundant source of cheap funding and liquidity for banks.

In Moody's opinion, a portion of Italian banks' extensive drawdown under TLTRO is used to take advantage of favorable terms offered by the ECB for depositing back to the central bank amounts unused for lending and/or investment purposes, thereby temporarily inflating banks' balance sheets. In its forward-looking analysis of the credit profiles of the banks affected by today's rating action, Moody's has taken into account, where applicable, such portions of TLTRO for the purpose of assessing financial metrics as well as in applying Moody's Advanced Loss Given Failure (LGF) analysis, which considers risks faced by the different debt and deposit classes across the liability structure. Moody's therefore assumes that the funds borrowed from, and re-deposited at the ECB will be running off medium-term when estimating banks' tangible banking assets (used for the assessment of Moody's Advanced LGF) as well as the amount of market funding and liquid resources.

BANKS AFFECTED BY TODAY'S RATING ACTION

- Intesa Sanpaolo S.p.A. (Intesa Sanpaolo): the outlook on the bank's long-term senior unsecured debt ratings was changed to stable from negative. The outlook on the bank's long-term deposit ratings remains stable, while the long-term deposit and senior unsecured debt ratings of Baa1 and its Baseline Credit Assessment (BCA) of baa3 were affirmed.

The affirmation of the ratings with a stable outlook reflects Moody's view that Intesa Sanpaolo's credit profile will remain broadly unchanged over the next 12 to 18 months. The rating action incorporates the rating agency's expectation of a moderate deterioration in the bank's asset risk, balanced against Intesa Sanpaolo's sustained profit generation capacity as well as high capital buffers. Under Moody's Advanced LGF analysis, a material portion of Intesa Sanpaolo's TLTRO drawdowns were considered as profit enhancing operation, resulting in unchanged ratings uplift. The bank's long-term deposit ratings are capped at Baa1, two notches above the Baa3 rating of the Government of Italy.

- UniCredit S.p.A. (UniCredit): the bank's long-term deposit and senior unsecured debt ratings of Baa1 were affirmed, as was its BCA of baa3. The outlooks on the long-term deposit and senior unsecured debt ratings remain stable.

The affirmation of the ratings with a stable outlook acknowledges the resilience of UniCredit's overall credit profile, despite Moody's expectation of a moderate deterioration of the bank's asset quality that will materialise once support measures fade away. The assessment is also underpinned by UniCredit's sound capital buffers as well as the rating agency's view that the group's profitability will improve in 2021 thanks to lower pandemic related cost of risk. Under Moody's Advanced LGF analysis, a material portion of UniCredit's TLTRO drawdowns were considered as profit enhancing operation, resulting in unchanged ratings uplift. The bank's long-term deposit and senior unsecured debt ratings are constrained at Baa1, two notches above the Baa3 rating of the Government of Italy.

- Banco BPM S.p.A. (Banco BPM): the outlooks on the long-term deposit ratings as well as issuer and senior unsecured debt ratings were changed to stable from negative. The bank's BCA of ba3, long-term deposit ratings of Baa3 and long-term issuer and senior unsecured debt ratings of Ba2 were affirmed.

The rating action reflects Moody's expectation that Banco BPM will continue its de-risking efforts through NPL sales and securitisations, offsetting some of the anticipated weakening in asset quality. The assessment also reflects the agency's expectation that Banco BPM will continue to report weak profitability and that it will maintain moderate capital levels. Under Moody's Advanced LGF analysis, a portion of Banco BPM's TLTRO drawdowns were considered as profit enhancing operation, resulting in unchanged ratings uplift.

- BPER Banca S.p.A. (BPER): the outlooks on the Baa3 long-term deposit ratings, Ba3 long-term issuer rating and Ba3 long-term senior unsecured debt ratings were changed to stable from negative. The bank's BCA of ba2 and all other assessments and ratings were affirmed.

The rating action reflects BPER's ongoing effort towards the reduction of its problem loans, its sound capitalisation and ample liquidity. The rating action also reflects the strengthened franchise from BPER's acquisition of a large number of branches from Intesa Sanpaolo S.p.A. in 2020 with expected synergies to materialize over the medium-term. Moody's considers that the amounts drawn by BPER under TLTRO are principally used for funding business and investment operations, resulting in unchanged rating uplift under Moody's Advanced LGF analysis.

- Credito Emiliano S.p.A. (Credem): the outlook on the Baa3 long-term deposit ratings was changed to stable from negative. The bank's BCA of baa3 was affirmed.

The rating action reflects Moody's expectation that Credem will continue to report lower level of problem loans compared to most Italian peers, and that the bank will maintain sound capital and good profitability. The assessment also reflects Credem's strong retail funding base and ample liquidity. Under Moody's Advanced LGF analysis, a portion of Credem's TLTRO drawdowns were considered as profit enhancing operation, resulting in unchanged ratings uplift.

- Mediobanca S.p.A. (Mediobanca): The outlooks on the Baa1 long-term issuer ratings and Baa1 senior unsecured debt ratings were changed to stable from negative. The outlook on the Baa1 long-term deposit ratings remains stable. The bank's BCA of baa3 and all other assessments and ratings were affirmed.

The rating action reflects Mediobanca's reported good capitalisation and sound and diversified profitability. It also reflects the idiosyncratic risks associated with the bank's still large stake in Assicurazioni Generali S.p.A and Moody's expectation that the bank will continue to rely highly on wholesale funding. Under Moody's

Advanced LGF analysis, a portion of Mediobanca's TLTRO drawdowns were considered as profit enhancing operation, resulting in unchanged ratings uplift.

- Mediocredito Trentino-Alto Adige S.p.A. (Mediocredito): The outlook on the Baa3 long-term deposit ratings was changed to stable from negative. The outlook on the Ba1 long-term senior unsecured debt rating and Ba1 long-term issuer ratings remains negative. The Baa3 long-term deposit ratings, the Ba1 long-term senior unsecured debt and issuer ratings, and the ba3 BCA were affirmed.

The affirmation of Mediocredito's BCA and the long-term deposit ratings with stable outlook reflect Moody's expectation of a moderate deterioration in the bank's asset risk, balanced against the bank's sound capital buffers. Moody's considers that the amounts drawn by Mediocredito under TLTRO are principally used for funding business and investment operations, resulting in unchanged rating uplift under Moody's Advanced LGF analysis. The unchanged negative outlooks on the long-term senior unsecured debt and issuer ratings reflects the increasing loss given failure for senior debt bondholders due to the maturing stock of bail-in-able debt.

- FCA Bank S.p.A. (FCA Bank): the outlook on the Baa1 long-term issuer rating was changed to stable from negative. The outlook on the Baa1 long-term deposit ratings remains stable. The bank's BCA of ba1, the Adjusted BCA of baa3 and all other assessments and ratings were affirmed.

Today's action reflects FCA Bank's strong solvency, supporting its resilience in the current environment. Furthermore, the assessment reflects Moody's assumption of high probability of support from the bank's 50% shareholder Credit Agricole S.A. (CASA, Aa3/Aa3 stable, baa2), resulting in an unchanged one-notch uplift from the FCA Bank's ba1 BCA to an Adjusted BCA of baa3. Moody's considers that the amounts drawn by FCA Bank under TLTRO are principally used for funding business and investment operations, resulting in unchanged rating uplift under Moody's Advanced LGF analysis. FCA Bank's long-term deposit ratings are capped at Baa1, two notches above the Baa3 rating of the Government of Italy.

- Banca Nazionale Del Lavoro S.p.A. (BNL): the outlooks on the Baa1 long-term deposit ratings and Baa3 long-term senior unsecured debt and issuer ratings were changed to stable from negative. The BCA of ba2 and Adjusted BCA of baa2, as well as all other ratings and assessments were affirmed.

The rating action reflects BNL's ongoing efforts in reducing its problem loans through disposals and internal workouts and Moody's expectation that the bank will continue to report weak capital levels and modest profitability. The affirmation of the baa2 Adjusted BCA also reflects Moody's assessment of very high probability of extraordinary support from its parent BNP Paribas (BNPP, Aa3/Aa3 stable, baa1), resulting in three notches of uplift from BNL's BCA. Moody's considers that the amounts drawn by BNL under TLTRO are principally used for funding business and investment operations, resulting in unchanged rating uplift under Moody's Advanced LGF analysis.

- Cassa Centrale Banca S.p.A. (CCB): The outlooks on the Baa1 long-term deposit ratings and on the Ba1 long-term issuer ratings were changed to stable from negative. The BCA of ba1 as well as all other ratings and assessments were affirmed.

The rating action reflects Moody's expectation that the bank's capital buffers will remain sound, and that the bank's ongoing disposals of problem loans will offset some of the anticipated deterioration in asset quality. Under Moody's Advanced LGF analysis, a portion of CCB's TLTRO drawdowns were considered as profit enhancing operation, resulting in unchanged ratings uplift.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade or downgrade in ratings could be driven by a higher or lower BCA.

A BCA upgrade could be driven by stronger than expected economic recovery in Italy, by material improvements in banks' asset quality, stronger profitability and capitalisation.

A BCA downgrade could be driven by a material deterioration in the operating environment for banks in Italy, leading to a worsening of banks' asset quality and profitability and reduced loss-absorption capacity. A downgrade of banks' BCAs could also be triggered by significantly reduced capitalization or a material deterioration in liquidity.

A downgrade of Italy's sovereign rating would also lead to a downgrade of banks' ratings capped by the sovereign rating.

Changes to the banks' liability structures could also have an impact of the banks' ratings. For example, an upgrade or downgrade could be prompted by increased or decreased volumes of loss-absorbing debt respectively, leading to a different uplift from the banks' Adjusted BCA.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1261354. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL446029 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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Fabio Ianno
VP - Senior Credit Officer
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Alain Laurin
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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