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Istituto per il Credito Sportivo

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Table Of Contents

Istituto per il Credito Sportivo

SACP	bbb-
Anchor	bbb-
Business Position	Moderate -1
Capital and Earnings	Very Strong +2
Risk Position	Moderate -1
Funding	Average 0
Liquidity	Adequate 0

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:

- Very strong capitalization.
- Ongoing support from the Italian government.
- Customer portfolio rebalancing toward public counterparties.

Weaknesses:

- Concentration in a monoline business and no revenue diversification.
- Still-high stock of nonperforming exposures (NPE).
- Single-name concentration.

Outlook: Stable

The stable outlook on Istituto per il Credito Sportivo (ICS) indicates that even though the pandemic will continue to dampen market conditions for the next 18-24 months, the bank's very strong capital buffers will help it absorb the effect. We expect the bank to be able to handle additional credit losses while maintaining its very strong capitalization.

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 downturn is significantly deeper and longer than forecast and the bank's credit risk mitigants were not proving as effective as anticipated.

Upside scenario

Although less likely at this stage, we could consider raising the ratings on ICS if we considered that the pressure on the Italian banking system had reduced and we concluded that the bank's asset quality and risk management had substantially improved. This could be demonstrated by a material reduction in ICS' NPE ratio, to a level comparable with the domestic average, combined with a meaningful reduction in the single-name concentration in the bank's loan book.

Rationale

We base our ratings on our view that ICS will preserve its sound capitalization in the coming years, on the back of contained loan growth. Specifically, we anticipate that the bank's risk-adjusted capital (RAC) ratio will be 35%-40% by end-2022. The bank's Tier 1 ratio stood at 90.3% in June 2020.

We expect ICS' excess capital to provide a comfortable buffer against the increase in credit losses caused by the pandemic. The main reason for the increase will likely be the bank's exposure to corporates operating in the sport business. Under our base case, we forecast that cost of risk will reach approximately 80 basis points (bps) in 2021, before gradually decreasing to 40 bps-60 bps thereafter.

ICS' loan book will still be exposed to relatively significant single-name concentration, albeit gradually reducing, and a still-sizable amount of legacy NPEs. This mainly derives from pre-2011 lending and underwriting practices toward private sector counterparties.

ICS will continue to benefit from government funding and business support. This is reflected in both the bank's ability to roll over long-term funding at favorable prices with its shareholders and the Italian Ministry of Finance's willingness to reinvest the dividends received by ICS in the bank's business. The ministry owns 80% of ICS.

Anchor: 'bbb-' for banks operating in Italy

Our bank criteria use our Banking Industry Country Risk Analysis (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating (ICR). Our anchor for a bank operating in Italy is 'bbb-'.

We believe Italian banks continue to face higher economic risk than most of their peers. While most banks had largely absorbed the effect of past recessions and tightened their underwriting standards, some still have meaningful legacy NPEs, an additional burden in a deteriorating economic environment. Moreover, the substantial time needed for creditors in Italy to recover collateral and settle lawsuits--due to the less effective insolvency and foreclosure procedures and judicial system--remains a weakness compared with most advanced economies. In such a context, the sharp contraction in economic activity in 2020 caused by the pandemic is likely to affect a large number of small and midsize enterprises to which Italian banks are particularly exposed, in our opinion. We anticipate credit losses will double in 2020 and 2021 from the 2019 level of about 70 bps, normalizing only in 2022.

Industry risks for Italian banks are also higher than for banks in peer countries, in our opinion. Their access to affordable unsecured wholesale funding remains constrained from time to time by uncertainties around sovereign creditworthiness and economic prospects. Clearly, near-to-medium term refinancing risk has abated, given the abundant liquidity provided by the European Central Bank (ECB); the large deposit funding base; and the banking sector's very low external position, with only 5% reliance on wholesale funding. Failing business volume and margins, combined with structural problems such as high cost bases and fragmentation, will constrain the banks' capacity to absorb the likely rise in credit losses over the next couple of years.

Supportive factors for the Italian banking system are the country's traditional focus on retail and commercial lending, and our view that regulatory standards are aligned with international best practices, mainly thanks to the ECB's direct supervision of more than 80% of the banking sector's total assets.

Table 1

Istituto per il Credito Sportivo--Key Figures					
	--Year ended Dec. 31--				
(Mil. €)	**2019**	**2018***	**2011**	**2010**	**2009**
Adjusted assets	3,216.5	2,933.2	2,005.6	1,924.5	1,862.4
Customer loans (gross)	1,902.8	1,894.0	1,944.8	1,846.4	1,805.4
Adjusted common equity	884.7	898.1	745.5	732.3	728.4
Operating revenues	66.5	49.8	50.0	49.2	50.3
Noninterest expenses	26.3	21.4	20.6	22.1	22.5
Core earnings	19.4	16.2	14.3	16.2	17.3

"*2018 data start from the end of the extraordinary administration (March 1, 2018)."

Business position: A public bank with a niche position in financing sports facilities

In our view, the multifaceted support from the Italian government will continue contributing to ICS' revenue stability and compensate for its very limited size and its concentration in a purely domestic-oriented niche market.

The support to the bank's lending activity will come primarily from the guarantee fund and the "Fondo Contributi negli Interessi" (interest contribution fund), both solely managed by ICS. Notably, the dividends ICS pays to the Italian Ministry of Finance will be invested in the interest contribution fund until 2022. In our view, this confirms ICS' public role in supporting Italian sports facilities.

Given ICS' public role, we anticipate that ICS' business prospects will show a positive medium-term trend. In addition, initiatives launched in collaboration with the Italian government and other Italian national federations should prove supportive. As a result, we expect ICS' gross customer loans portfolio to increase by a further 4% per year in 2019-2022, on top of the cumulative 18% growth reported in 2015-2019.

We also anticipate that ICS will keep rebalancing its credit portfolio toward less risky sectors--mainly municipalities and provinces. Total lending to public and other low-risk entities represents about 61% of the loan book.

Chart 1

ICS' Loan Book Skewed Toward Low-Risk Clients
Breakdown of gross customer loans by client type (%, 2019)

Source: S&P Global Ratings.

Table 2

Istituto per il Credito Sportivo--Business Position

	--Year ended Dec. 31--				
(%)	**2019**	**2018***	**2011**	**2010**	**2009**
Total revenues from business line (currency in millions)	66.6	50.0	50.0	49.2	50.4
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	2.0	N/A	1.8	2.1	2.3

N/A--Not applicable. "*2018 data start from the end of the extraordinary administration (March 1, 2018)."

Capital and earnings: Large capital base

ICS' roughly €900 million of total adjusted capital (TAC) is a key rating strength as it will provide a sustained buffer against future asset expansion and potential losses. Despite the size of TAC, we assume the government is unlikely to ask ICS to return any excess to its shareholders over the next two years. We therefore anticipate that ICS' RAC ratio will stand at about 35%-40% by end-2022, compared with 39% at end-2019, taking into account the bank's lending growth and limited internal capital generation capacity.

We estimate that profitability in both 2020 and 2021 will be constrained by higher credit losses that those reported in 2019. We assume earnings will return close to pre-pandemic levels only in 2022.

Unlike most domestic financial institutions, ICS' net interest income still accounts for the bulk of its revenue (excluding non-recurring trading profits). Given that interest rates are expected to remain ultra low, ICS' preprovision income could be more affected by the compression on interest margins than its domestic peers, which on average make 35%-40% of core revenue from fees. Rising volumes will likely give it more leeway.

Table 3

Istituto per il Credito Sportivo--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2019**	**2018***	**2011**	**2010**	**2009**
Tier 1 capital ratio	92.5	101.0	85.0	61.0	56.0
S&P Global Ratings' RAC ratio before diversification	39.4	44.9	114.6	139.3	96.3
S&P Global Ratings' RAC ratio after diversification	24.4	27.5	60.4	74.8	71.4
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	78.0	84.9	97.2	97.5	98.3
Fee income/operating revenues	0.9	1.1	0.2	0.1	0.2
Market-sensitive income/operating revenues	20.4	13.8	0.0	0.3	(0.4)
Cost to income ratio	39.5	43.1	41.3	44.9	44.6
Preprovision operating income/average assets	1.3	N/A	1.5	1.4	1.5
Core earnings/average managed assets	0.6	N/A	0.7	0.9	0.9

N/A--Not applicable. RAC--Risk adjusted capital. "*2018 data start from the end of the extraordinary administration (March 1, 2018)."

Table 4

Istituto per il Credito Sportivo--Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	2,513.8	333.1	13.3	1,097.6	43.7
Of which regional governments and local authorities	1,281.0	289.3	22.6	609.1	47.6
Institutions and CCPs	184.9	49.5	26.8	87.8	47.5
Corporate	354.4	324.0	91.4	427.8	120.7
Retail	90.8	55.8	61.5	106.0	116.8
Of which mortgage	5.8	22.7	390.1	3.5	59.6
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	113.9	79.8	70.1	237.8	208.9
Total credit risk	3,257.7	842.2	25.9	1,957.1	60.1
Credit valuation adjustment					
Total credit valuation adjustment	--	0.0	--	0.0	--
Market Risk					
Equity in the banking book	21.8	46.8	214.4	163.8	750.0
Trading book market risk	--	0.0	--	0.0	--

Table 4

Istituto per il Credito Sportivo--Risk-Adjusted Capital Framework Data (cont.)					
Total market risk	--	46.8	--	163.8	--
Operational risk					
Total operational risk	--	91.9	--	124.8	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	981.0	--	2,245.7	100.0
Total diversification/ concentration adjustments	--	--	--	1,374.0	61.2
RWA after diversification	--	981.0	--	3,619.7	161.2
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		907.4	92.5	884.7	39.4
Capital ratio after adjustments‡		907.4	92.5	884.7	24.4

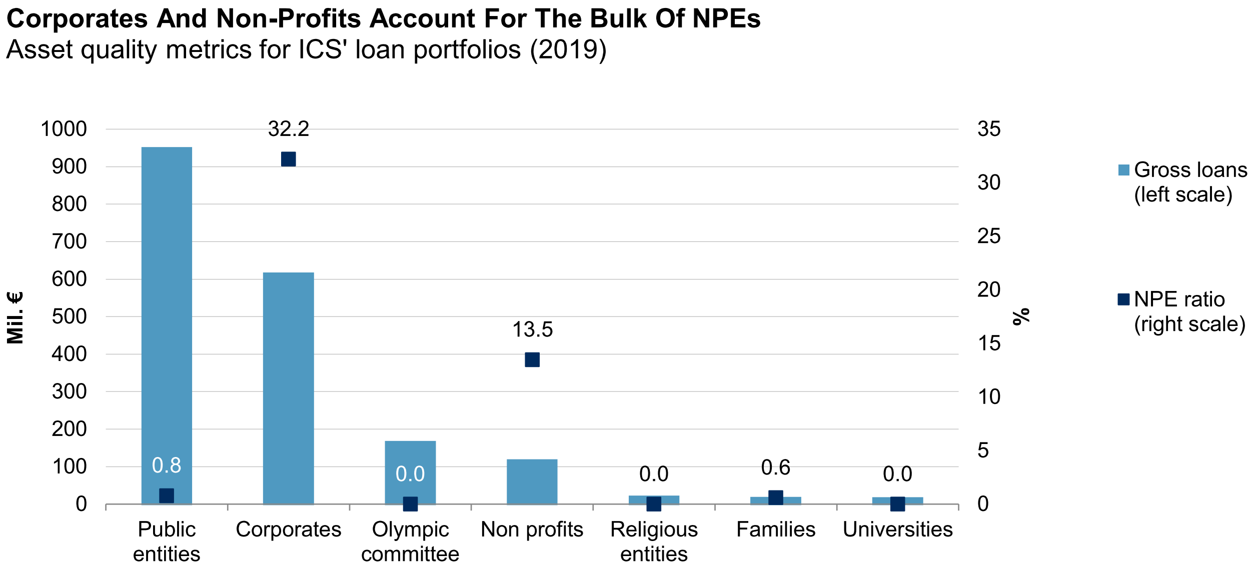
*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CCP's--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2019, S&P Global Ratings.

Risk position: Manageable deterioration in asset quality and improving single-name concentration

At the start of the credit cycle triggered by the pandemic, ICS had a larger share of legacy NPEs than most domestic Italian banks. The bank's gross NPE ratio stood at 11.3% as of June 2020, well above the estimated system average of about 8.0%. Further NPEs will likely emerge once the existing regulatory relaxation of NPE recognition and government moratoriums ends during 2021. That said, we expect the downturn to affect ICS' loan book less than other domestic commercial banks, primarily because about 60% of ICS' credit exposures are to low-risk counterparties.

In our view, the primary source of credit risk will be the bank's lending to private entities operating in the sports business and to nonprofit sport associations. These sectors cumulatively represent less than 40% of total loans, but account for almost all its NPEs (see chart 2).

Chart 2

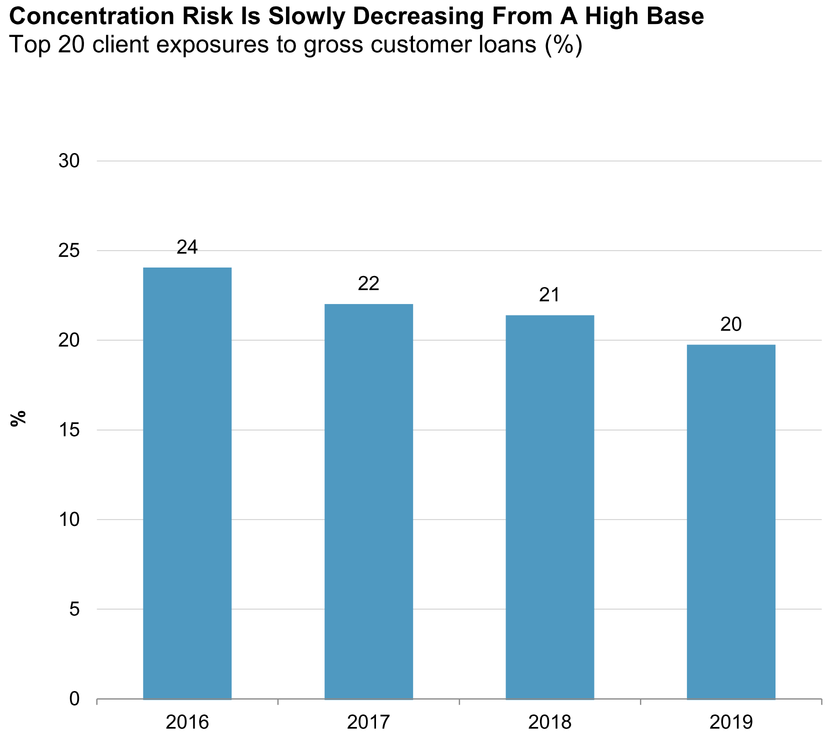


Source: S&P Global Ratings.

About 9% of ICS' loans to private corporates are backed by the guarantee fund, which partially reduces the risk on the overall loan book.

The material deterioration in the bank's loan book observed over the previous crisis (the NPE ratio was 5.2% as of end-2011) was mainly driven by a few large exposures becoming delinquent; these had been originated under riskier pre-2011 lending practices. Given this experience, we welcome ICS' decision to switch to pooled lending for large projects. In our view, tightening underwriting standards lower the risk of experiencing similar spikes in the future and will help by gradually reducing single-name concentration.

Chart 3



Source: S&P Global Ratings. Note: Top 20 client exposures data in 2017 relates to February 28th, 2017.

Table 5

Istituto per il Credito Sportivo--Risk Position

	--Year ended Dec. 31--				
(%)	**2019**	**2018***	**2011**	**2010**	**2009**
Growth in customer loans	0.5	N.M.	5.3	2.3	1.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	61.2	63.6	89.6	86.2	34.8
Total managed assets/adjusted common equity (x)	3.6	3.3	2.7	2.6	2.6
New loan loss provisions/average customer loans	0.6	N/A	0.3	0.1	0.1
Net charge-offs/average customer loans	N.M.	N.M.	0.0	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	11.7	15.4	5.2	4.6	6.2
Loan loss reserves/gross nonperforming assets	54.5	50.2	19.7	19.5	12.8

N/A--Not applicable. N.M.--Not meaningful. RWA--Risk weighted assets. "*2018 data start from the end of the extraordinary administration (March 1, 2018)."

Funding and liquidity: A high reliance on ECB funding, but shareholders' support remains available

ICS' funding profile will continue to benefit strongly from ongoing shareholder support. Although ICS has been increasing its exposure to cheaper ECB funding, its shareholders are, in our opinion, willing and able to support the bank in case of need.

As of December 2019, resources from ECB accounted for €1.1 billion of financing (compared with €580 million at end-2014). ECB's financing represented 51% of the bank's total funding base; funding from shareholders Cassa Depositi e Prestiti (CDP) amounted to 16%.

ICS has committed to diversifying its funding sources. Given that the bank finances sport facilities, it could benefit from lines from international multilateral institutions. In particular, ICS' exposures to the European Investment Bank and the Council of Europe Development Bank amounted to €70 million and €140 million, respectively, as of December 2019.

ICS will maintain sufficient liquidity in case of need, in our view. Its government bonds portfolio covers its short-term wholesale funding by 0.95x.

Table 6

Istituto per il Credito Sportivo--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2019**	**2018***	**2011**	**2010**	**2009**
Core deposits/funding base	4.7	5.7	0.0	0.0	0.0
Customer loans (net)/customer deposits	1,708.2	1,497.9	N.M.	N.M.	N.M.
Long-term funding ratio	60.6	70.2	89.6	88.9	87.4
Stable funding ratio	101.9	110.5	89.6	88.5	86.9
Short-term wholesale funding/funding base	55.8	42.4	17.1	19.0	21.7
Broad liquid assets/short-term wholesale funding (x)	1.1	1.3	0.2	0.2	0.1
Net broad liquid assets/short-term customer deposits	87.4	116.6	N.M.	N.M.	(444.9)
Short-term wholesale funding/total wholesale funding	58.6	44.9	17.1	19.0	21.7
Narrow liquid assets/3-month wholesale funding (x)	N/A	N/A	N/A	N/A	N/A

N/A--Not applicable. N.M.--Not meaningful. "*2018 data start from the end of the extraordinary administration (March 1, 2018)."

Support: No notches of uplift to the stand-alone credit profile

We classify ICS as a government-related entity (GRE). As such, we believe there is a moderately high likelihood that the Italian government would provide extraordinary support to ICS in the event of financial distress.

Our view is based on our assessment of ICS':

- Limited role as a niche player acting on behalf of the government to finance Italian sports facilities. That said, Italy's fiscal situation and capacity to support a GRE has diminished over the past year; and
- Very strong links with the government, which directly and indirectly holds an 89.3% stake in ICS and appoints its president and most board members, thereby deciding the bank's strategy.

Additional rating factors: None

No additional factors affect this rating.

Environmental, social, and governance

ESG factors have a neutral impact on our assessment of ICS' creditworthiness. ICS has a public mandate to promote sport activities by providing credit to public entities and to private corporates and associations operating in Italy. As it pursues this objective, the bank benefits from the management of the interest contribution fund and the guarantee fund, which support its business model.

Related Criteria

- 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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	**6**	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	**bbb-**	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of February 8, 2021)*

Istituto per il Credito Sportivo	
Issuer Credit Rating	BBB-/Stable/A-3
Issuer Credit Ratings History	
05-May-2015	BBB-/Stable/A-3
18-Dec-2014	BBB-/Negative/A-3
24-Jul-2013	BBB/Negative/A-2
Sovereign Rating	
Italy	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.