

Research Update:

Italy-Based Istituto Per Il Credito Sportivo 'BBB-/A-3' Ratings Affirmed On Substantial Capital Buffer; Outlook Stable

May 14, 2020

Overview

- Despite governments' measures to contain the COVID-19 pandemic and the unprecedented support that governments have committed to corporate and household sectors, European economies, including Italy, face an unprecedented challenge.
- We expect Istituto per il Credito Sportivo's (ICS) large capital buffers will absorb additional credit losses we project over 2020-2021 under our revised base case, and we think the bank will continue benefitting from government guarantees for some of its exposures.
- We are therefore affirming our 'BBB-/A-3' ratings on ICS.
- The stable outlook reflects our view that the bank's very high capitalization will allow it to absorb the effects of deteriorating domestic economic conditions.

PRIMARY CREDIT ANALYST

Alessandro Ulliana
Milan
(39) 02-72111-228
alessandro.ulliana
@spglobal.com

SECONDARY CONTACT

Regina Argenio
Milan
(39) 02-72111-208
regina.argenio
@spglobal.com

Rating Action

On May 14, 2020, S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term issuer credit ratings on Italy-based Istituto per il Credito Sportivo (ICS). The outlook is stable.

Rationale

We expect the COVID-19 pandemic to cause a severe recession in Italy in 2020. While we see a recovery in 2021, we anticipate it will not immediately and entirely offset the damage caused to the economy, household wealth, and various corporate sectors. We also believe Italian banks are more vulnerable to deteriorating economic conditions than other banking systems in Europe because of their high exposure to small and midsize enterprises.

The affirmation of our ratings on ICS primarily reflects our view that the effect of this recession on its credit quality will remain manageable, owing primarily to a strong capital buffer and a significant share of exposures to low-risk public administrations in its loan book. Also, we note

positively that some exposures to nongovernment entities benefit from the government guarantees.

In particular, we expect ICS' risk-adjusted capital to remain above 35% over the next two years, providing it with a meaningful cushion to absorb potentially rising losses and falling revenue. The bank's Tier 1 ratio stood at 92% as of December 2019. In our view, this strong capitalization will remain a credit strength for ICS, supporting the bank's creditworthiness at the current time of stress.

We acknowledge the predominance of exposure to low-risk public administration and sports federations in ICS' loan book, cumulatively accounting for about 60% of total loans as of December 2019. We expect credit losses from this sector to remain limited compared with those from private borrowers over 2020-2021.

In our view, the primary source of credit risk is the bank's lending to private entities active in the sports business and to not-for-profit sports associations, which represent less than 40% of total loans but account for almost all nonperforming exposures (NPE). However, we note the bank's total adjusted capital (TAC) comfortably covers 1.5x these loans (including performing and nonperforming exposures). We also highlight that the bulk of NPEs are represented by the legacy portfolio originated in the past, when the bank had more relaxed lending and underwriting practices. We think that the exposures underwritten over recent years have substantially better credit risk profiles compared, reflecting the revised credit policies and better risk management, including a higher share of lending to public administrations that represent a better credit risk. The new lending framework has also resulted in gradually improving single name concentrations by prescribing pooled lending for projects above a certain amount. Additionally, about 9% of loans to private corporates is backed by the Italian "Fondo di Garanzia" (Guarantee Fund). In our view, the presence of this guarantee further reduces the risk on the loan book.

We note positively that the Italian Liquidity Decree (dated April 8, 2020) increased the size of the Guarantee Fund and the "Fondo Speciale per Contributi sugli Interessi" (Interest Contribution Fund), both solely managed by ICS, with a cumulative €35 million for 2020 as part of the measures to support the Italian economy amid the COVID-19 pandemic. We expect this increased ceiling will allow the bank to lend up to €100 million to support sport associations' liquidity needs. We see the bank's inclusion in the aforementioned Law Decree as a confirmation of ICS' role in acting on behalf of the government to support Italian sports facilities.

Outlook

The stable outlook on ICS reflects our view that the bank's very strong capital buffers will help absorb the effect of deteriorated market conditions amid the COVID-19 pandemic over the next 18-24 months. 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 a diminished commitment from the Italian government toward ICS, reflected via a request for a capital reduction, or reduced funding or business support. We could also consider a downgrade if the downturn is significantly deeper and longer than we currently forecast and, at the same time, we believed the bank's credit risk mitigants did not prove as effective as we currently anticipate.

Upside scenario

Although less likely at this stage, if we revise the sovereign outlook to stable and if we believed the pressure on the Italian banking system had reduced, we could consider raising the ratings on ICS, if at the same time we concluded the bank's asset quality and risk management had substantially improved. This could happen if we observed a material reduction in ICS' NPE ratio to a level comparable with the domestic average and we believed the bank had meaningfully diminished the single-name concentration in its loan book.

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	Average and Adequate (0)
Support	(0)
ALAC Support	(0)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(0)

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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Outlooks On Most Italian Banks Now Negative On Deepening COVID-19 Downside Risks, April 29, 2020
- Italy 'BBB/A-2' Ratings Affirmed; Outlook Negative, April 24, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020

Ratings List

Ratings Affirmed

Istituto per il Credito Sportivo

Issuer Credit Rating	BBB-/Stable/A-3
----------------------	-----------------

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/sourceId/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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.