Research Update:

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

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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.

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	Average and (0)
Liquidity	Adequate
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