Fitch Ratings

Fitch Takes Action on 14 Italian Banking Groups On Coronavirus Disruption

Fitch Ratings - Milan - 24 March 2020:

Fitch Ratings has taken the rating actions on 14 banking groups following the coronavirus disruption in Italy as detailed below.

While the ultimate economic and financial market implications of the coronavirus pandemic are unclear, Fitch considers the risks to banks' credit profiles to be clearly skewed to the downside and this has driven the rating actions. Fitch's baseline is for Italian GDP to contract by 2.0% this year (a negative 2.2% swing from our February forecast), before recovering in 2021.

Fiscal support measures for the private sector and financial markets have mixed first order implications for banks. Italian government guarantees on loans to SMEs will support borrowers' viability and hence banks' asset quality. Mortgage loan relief programmes will have negative first order implications for banks, but compensation by the state for direct COVID-19 related losses appears to be approved by EU state aid authorities, so it is probable that the full financial impact for banks will ultimately be mitigated.

Nonetheless, we expect asset quality to weaken relative to our previous expectations and for earnings challenges to intensify due to weaker business volumes and rising loan impairment charges. Higher wholesale funding costs (a combination of Italian spread widening and bank debt re-pricing) represent an additional downside risk in the event monetary policy support packages, including the ECB's EUR750 billion Pandemic Emergency Purchase Programme (PEPP), fail to mitigate rising funding costs.

We consider the risks to funding profiles to be a longer-term (eg term debt refinancing and market issuance), rather than near-term risk, given limited use by Italian banks of short-term wholesale funding and extensive monetary policy support facilities, including targeted longer-term refinancing operations (TLTRO) and the PEPP. Larger banks are more vulnerable to large corporates drawing down on their credit facilities. Lower rated banks are more at risk of their deposit franchises coming under pressure in the event of adverse news-flow and are likely to be the last to access wholesale funding markets again.

Key Rating Drivers

INTESA SAN PAOLO S.p.A. AND SUBSIDIARIES

Unless noted below, the key rating drivers for Intesa and its subsidiaries are those outlined in our Rating Action Commentary published in November 2019 (Fitch Affirms Intesa Sanpaolo at 'BBB'; Outlook Negative).

We have affirmed Intesa's Long-Term IDR with a Negative Outlook and its Viability Rating (VR) because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to the ratings. However, the bank enters the economic downturn from a relative position of strength, given its leading franchise in Italy, diverse and stable business model, less cyclical earnings generation than domestic peers, sound capitalisation and strong funding and liquidity. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of risk appetite, earnings and funding relative to when we last reviewed the bank's ratings.

Fitch has downgraded Intesa's Tier 2 debt by one notch to 'BB+' and removed it from Under Criteria Observation (UCO) to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

We have upgraded the AT1 debt by one notch to 'BB-' and removed it from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a common equity Tier 1 (CET1) ratio that is comfortably above maximum distributable amount (MDA) thresholds and our expectation that this will continue.

UNICREDIT S.p.A. AND SUBSIDIARIES

Unless noted below, the key rating drivers for UniCredit and its subsidiaries are those outlined in our Rating Action Commentary published in November 2019 (Fitch Affirms UniCredit at 'BBB'; Outlook Negative).

Fitch has affirmed UniCredit's Long-Term IDR with a Negative Outlook and its VR because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to UniCredit's ratings. However, the bank enters the economic downturn from a relative position of strength, given its improved financial performance over the past three years, which includes a reduction in impaired loans, a gradual recovery in operating profitability, maintaining satisfactory capital buffers over regulatory minimum requirements and the completion of its total loss absorbing capacity (TLAC) and minimum requirement for own funds and eligible liabilities (MREL) funding plans.

While UniCredit's ratings benefit from sound franchises in the regions where it operates, its risk profile is influenced by its large operations in Italy. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks, primarily to our assessment of risk appetite, earnings and funding relative to when we last reviewed the bank's ratings.

Fitch has downgraded UniCredit's senior non-preferred (SNP) debt by one notch to 'BBB-' and removed from UCO to reflect the risk of below average recoveries arising from the use of more senior debt to meet resolution buffer requirements, and the combined buffer of AT1, Tier 2 and SNP debt being unlikely to exceed 10% of risk-weighted assets.

We have downgraded the tier 2 debt by one notch to 'BB+' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

Fitch has upgraded the AT1 debt by one notch to 'BB-' and removed it from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a CET1 ratio that is comfortably above MDA thresholds and our expectation that this will continue.

MEDIOBANCA S.p.A. AND SUBSIDIARIES

Unless noted below, the key rating drivers for Mediobanca are those outlined in our Rating Action Commentary published in February 2020 (Fitch Affirms Mediobanca at 'BBB'; Outlook Negative).

Fitch has affirmed Mediobanca's Long-Term IDR with a Negative Outlook and its VR because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to Mediobanca's ratings. However, the bank enters the economic downturn from a relative position of strength thanks to its sound capitalisation, and better than domestic peers' profitability and asset quality, which proved resilient through the economic cycle. Mediobanca's financial performance is underpinned by its specialised business model with strong competitive positions in selected businesses. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of risk appetite, asset quality, earnings and funding relative to when we last reviewed the bank's ratings.

We have downgraded Mediobanca's SNP debt by one notch to 'BBB-' and removed it from UCO to reflect the risk of below average recoveries arising from the use of more senior debt to meet resolution buffer requirements and the combine buffer of AT1, Tier 2 and SNP debt being unlikely to exceed 10% of risk-weighted assets.

We have downgraded the Tier 2 debt by one notch to 'BB+' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

CREDITO EMILIANO (CREDEM)

Unless noted below, the key rating drivers for Credem are those outlined in our Rating Action Commentary published in May 2019 (Fitch Affirms Credito Emiliano at 'BBB'/Negative; Downgrades Short-Term IDR to 'F3').

Fitch has affirmed Credem's Long-Term IDR with a Negative Outlook and VR because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to Credem's ratings. However, the bank enters the economic downturn from a relative position of strength underpinned by its more stringent risk appetite than domestic peers and prudent management stance, which resulted in asset quality remaining consistently better than peers through the cycle and adequate capitalisation. A fairly diversified and stable business model has to date provided it with some earnings stability. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of risk appetite, asset quality and earnings relative to when we last reviewed the bank's ratings.

Fitch has upgraded Credem's Long-Term Deposit Rating by one notch above the Long-Term IDR to 'BBB+' and removed it from UCO to reflect the protection that will accrue to it from more junior bank resolution debt and equity buffers. This is because we expect the bank will comply with MREL targets.

We have downgraded the SNP debt by one notch to 'BBB-' and removed it from UCO to reflect the risk of below average recoveries arising from the use of more senior debt to meet resolution buffer requirements and the combined buffer of AT1, Tier 2 and SNP debt being unlikely to exceed 10% of risk-weighted assets.

Fitch has downgraded the tier 2 debt by one notch to 'BB+' and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

BANCA NAZIONALE DEL LAVORO S.p.A. (BNL)

Unless noted below, the key rating drivers for BNL are those outlined in our Rating Action Commentary published in March 2020 (Fitch Affirms Banca Nazionale del Lavoro at 'BBB+'; Outlook Negative).

Fitch has placed BNL's VR on Rating Watch Negative (RWN) because the economic fallout from the coronavirus crisis represents a near-term risk to the rating since the bank enters the economic downturn from a position of relative weakness given its below-average asset quality and profitability and margins. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of management and strategy, risk appetite, asset quality and earnings relative to when we last reviewed the bank's ratings.

Fitch has affirmed BNL's senior debt programme and long-term deposit ratings at 'BBB+', in line with its Long-Term IDR, and removed the ratings from UCO because we do not believe that internal resolution debt and equity buffers would offer obvious incremental protection to these debt classes over and above the institutional support benefit already factored into the bank's IDRs, given that the latter are constrained by country risk considerations.

UNIONE DI BANCHE ITALIANE S.p.A.(UBI)

Unless noted below, the key rating drivers for UBI are those outlined in our Rating Action Commentary published in February 2020 (Fitch Places UBI on Rating Watch Positive on Exchange Offer Announcement).

We have maintained UBI's Long-Term IDR, VR, deposit and debt ratings on Rating Watch Positive (RWP) because the key rating driver for UBI remains the heightened probability that it will become part of a stronger group and could therefore benefit from institutional support from higher-rated Intesa as its majority shareholder in case of need. The RWP on the VR reflects the potential benefits to the bank's standalone profile from being acquired by Intesa. Nonetheless, we believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of risk appetite, including if it becomes part of Intesa, relative to when we last reviewed the bank's ratings.

Fitch has downgraded UBI's SNP debt by one notch to 'BB+'/RWP and removed it from UCO to reflect the risk of below average recoveries arising from the use of more senior debt to meet resolution buffer requirements and the combined buffer of AT1, Tier 2 and SNP debt being unlikely to exceed 10% of risk-weighted assets. We have maintained UBI's SNP debt rating on RWP.

Fitch has downgraded the tier 2 debt by one notch to 'BB'/RWP and removed it from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch. UBI's Tier 2 debt has been maintained on RWP.

BANCA POPOLARE DI SONDRIO Unless noted below, the key rating drivers for Sondrio are those outlined in our Rating Action Commentary published in June 2019 (Fitch Downgrades Banca Popolare di Sondrio to 'BB+'; Outlook Stable).

Fitch has placed Sondrio's Long-Term IDR, VR, deposit and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to Sondrio's ratings, since the bank enters the economic downturn from a position of relative weakness given its more limited progress than domestic peers to date in improving asset quality and the resulting pressure this has on its acceptable capitalisation and operating profitability. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of management and strategy, risk appetite, asset quality and earnings relative to when we last reviewed the bank's ratings.

Fitch has downgraded Sondrio's tier 2 debt by one notch to 'BB-', removed it from UCO and placed it on RWN to reflect the change in baseline notching for loss severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

BANCA POPOLARE DELL'ALTO ADIGE (VOLKSBANK)

Unless noted below, the key rating drivers for Volksbank are those outlined in our Rating Action Commentary published in May 2019 (Fitch Affirms Banca Popolare dell'Alto Adige at 'BB+'; Outlook Stable).

We have placed Volksbank's Long-Term IDR, VR, deposit and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to Volksbank's ratings. The bank enters the economic downturn from a position of relative weakness given its less diverse business model compared to higher-rated domestic peers and regionally concentrated franchise in the province of Bolzano. The economy in this region tends to outperform the national one but is dependent on tourist flows, including from neighbouring Austria and Germany, and on exports to these countries. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of management and strategy, risk appetite, asset quality, earnings and capital relative to when we last reviewed the bank's ratings.

Fitch has downgraded Volksbank's tier 2 debt by one notch to 'BB-', removed it from UCO and placed it on RWN to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

BANCO DI DESIO E DELLA BRIANZA (DESIO)

Unless noted below, the key rating drivers for Desio are those outlined in our Rating Action Commentary published in May 2019 (Fitch Affirms Banco di Desio e della Brianza at 'BBB-'/Stable).

We have placed Desio's Long-and-Short-Term IDRs, VR and deposit ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to Desio's ratings, since the bank enters the economic downturn from a position of modest profitability and a business model that we consider particularly sensitive to interest rate and economic cycles. Desio's operating profitability and asset quality could face significant strain given the bank's presence in areas that are most affected by the initial shutdown. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of management and strategy, risk appetite, asset quality, earnings and capital relative to when we last reviewed the bank's ratings.

The RWN on Desio's Short-Term IDR is in line with the RWN on the Long-Term IDR.

Banca IFIS (IFIS)Unless noted below, the key rating drivers for IFIS are those outlined in our Rating Action Commentary published in May 2019 (Fitch Affirms Banca IFIS at 'BB+'; Outlook Stable).

Fitch has placed IFIS's Long-Term IDR, VR, deposit and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to IFIS's ratings, since its business model reliance on non-performing loan (NPL) purchase and SME lending to generate earnings could expose the bank to significant downside risks from materially lower volumes, worsened recovery expectations as well as higher NPL inflows from its SME lending. This could ultimately put pressure on capital. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of risk appetite, asset quality, earnings and capital relative to when we last reviewed the bank's ratings.

We have removed IFIS's 'BB+' senior debt rating from UCO and placed it on RWN, in line with its Long-Term IDR, since despite the bank does not have MREL, it plans to operate with combined buffers of senior preferred and Tier 2 debt above 10% of its RWAs. At end-2019 IFIS had senior preferred and Tier 2 debt outstanding equal to around 15% of its RWAs.

We have downgraded the Tier 2 debt by one notch to 'BB-', removed it from UCO and placed it on RWN to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

BPER Banca (BPER)

Unless noted below, the key rating drivers for BPER are those outlined in our Rating Action Commentary published in April 2019 (Fitch Affirms BPER Banca at 'BB'; Outlook Positive).

Fitch has placed BPER's Long-Term IDR, VR and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to BPER's ratings, since the bank enters the economic downturn from a position of relative weakness given its still weaker than average asset quality, despite recent progress in reducing NPLs and capital encumbrance from their unreserved portion, and the pressure this has had on operating profitability, including from having to strengthen loan loss allowances to be able to dispose of these loans. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of management and strategy, risk appetite and asset quality while eliminating the upward potential for our assessment of earnings and capital relative to when we last reviewed the bank's ratings.

We have upgraded BPER's long-term deposit rating by one notch above the Long-Term IDR to 'BB+', removed it from UCO and placed it on RWN to reflect the protection that will accrue to it from more junior bank resolution debt and equity buffers. This is because we expect the bank will comply with MREL targets.

We have downgraded the Tier 2 debt by one notch to 'B+, removed it from UCO and placed it on RWN to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

Banca Monte dei Paschi di Siena (MPS)

Unless noted below, the key rating drivers for MPS are those outlined in our Rating Action Commentary published in July 2019 (Fitch Affirms Banca Monte dei Paschi di Siena at 'B'; Outlook Stable).

Fitch has placed MPS's Long-Term IDR, VR, deposit and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to MPS's ratings, since the bank enters the economic downturn from a position of weakness as MPS has not fully completed its restructuring that follow years of financial difficulties. The bank still has a large stock of impaired loans compared with the domestic average despite the significant derisking in recent years and has not regained competitiveness and restored its profitability to more acceptable and sustainable levels. Its capitalisation remains exposed to high unreserved impaired loans and large, albeit reduced, stock of Italian government bonds. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of management and strategy, risk appetite and earnings relative to when we last reviewed the bank's ratings.

Our assessment of asset quality and capitalisation reflect potential downside risk from the fallout of the coronavirus but also upside potential that could come from the disposal of a large portion of its impaired loans to state-owned asset management company AMCO. Italy's Ministry of Finance has reportedly been in negotiations with the European Commission (EC) for months to ensure compliance of the transaction with state-aid rules.

MPS's Long-Term deposit rating remains on UCO pending further analysis on expected recoveries.

Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia (CARIGE)

Unless noted below, the key rating drivers for Carige are those outlined in our Rating Action Commentary published in January 2019 (Fitch Upgrades Carige to 'B-'; Outlook Stable).

We have placed Carige's Long-Term IDR, VR, deposit and debt ratings on RWN because the economic fallout from the coronavirus crisis represents a near-term risk to Carige's ratings, since the bank enters the economic downturn from a position of weakness given its restructuring has only just started following its rescue in late 2019 and several quarters of financial stress that materially damaged its franchise and commercial effectiveness. We believe the economic and financial market fallout from the coronavirus outbreak creates additional downside risks to our assessment of management and strategy and risk appetite relative to when we last reviewed the bank's ratings. It also reduces the upside that we were previously expecting on asset quality and earnings.

The RWN on Carige's Short-Term IDR is in line with the RWN on the Long-Term IDR.

Carige's Long-Term deposit rating remains on UCO pending further analysis on expected recoveries.

Gruppo Bancario Cooperativo Iccrea (GBCI) AND SUBSIDIARIES

Unless noted below, the key rating drivers for GBCI are those outlined in our Rating Action Commentary published in March 2020 (Fitch Affirms Gruppo Bancario Cooperativo Iccrea at 'BB', Outlook Stable).

We have downgraded GBCI's Long-Term, IDR, VR and debt ratings and assigned a Negative Outlook because the economic fallout from the coronavirus crisis results in heightened risks to GBCI's ratings, since the bank enters the economic downturn from a position of significant weakness given its below-average asset quality and fragile profitability compared with that of peers, both factors being key rating drivers. Profitability weaknesses result from a less diversified business model and weak cost efficiency. We have reflected the highly likely impact of the economic and financial market fallout from the coronavirus outbreak in a weaker assessment of management and strategy, risk appetite and asset quality relative to when we last reviewed the bank's ratings.

RATING SENSITIVITIES

With the exception of BNL, whose IDRs are driven by expectations of support from BNP Paribas S.A., the most immediate downside rating sensitivity for banks' IDRs, VRs and debt ratings relates to the economic and financial market fallout arising from the coronavirus outbreak as this represents a clear risk to our assessment of asset quality, earnings, capitalisation and funding. The extent to which government and central bank support packages can mitigate rating pressure on banks' ratings will depend on the amount and form such support takes.

INTESA AND SUBSIDIARIES

Intesa has headroom to emerge with its IDRs, VR, debt and deposit ratings intact due to the relative strength of its company profile, capitalisation, earnings and funding profile, which are all in line with or above its VR. However, this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Italian economy. Intesa's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. Under Fitch's downside scenario, which is based on a widespread global lockdown due to COVID-19, Italy's GDP would contract by 2.3% in 2020 before seeing a sharp recovery in 2021. A delay to this sharp recovery would likely result in more permanent damage to the bank's capital and asset quality, which would be difficult to restore within a short period of time. Intesa's domestic focus means that its ratings would be downgraded if Italy (BBB/Negative) was downgraded. For Intesa's ratings to be upgraded, Italy would need to be upgraded.

The AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded. The senior preferred debt ratings could be upgraded if Intesa is expected to meet its resolution buffer requirements with SNP and more junior instruments. The Short-Term IDR and debt ratings could be downgraded if the bank's funding and liquidity profile weakens from the current 'bbb+' level.

UNICREDIT AND SUBSIDIARIES

UniCredit has headroom to emerge with its IDRs, VR, debt and deposit ratings intact due to the relative strength of its company profile, risk appetite, capitalisation and funding profile, which are all in line with or above its VR. However, this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Italian economy. UniCredit's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. Under Fitch's downside scenario, which is based on a widespread global lockdown due to COVID-19, Italy's GDP would contract by 2.3% in 2020 before seeing a sharp recovery in 2021. A delay to this sharp recovery would likely result in more permanent damage to the bank's capital and asset quality, which would be difficult to restore within a short period of time, places and exercise sustained pressure on earnings. UniCredit's large operations in Italy mean that its ratings would be downgraded if Italy was downgraded. For UniCredit's ratings to be upgraded, Italy would need to be upgraded.

The AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded. The senior preferred debt ratings could be upgraded if UniCredit is expected to meet its resolution buffer requirements with SNP and more junior instruments. The Short-Term IDRs and debt ratings could be downgraded if the bank's funding and liquidity profile weakens from the current 'bbb+' level.

MEDIOBANCA AND SUBSIDIARIES

Mediobanca has headroom to emerge with its IDRs, VR, debt and deposit ratings intact due to the relative strength of its asset quality, capitalisation and funding profile, which are all in line with or above its VR. However, this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Italian economy. Mediobanca's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. Under Fitch's downside scenario, which is based on a widespread global lockdown due to COVID-19, Italy's GDP would contract by 2.3% in 2020 before seeing a sharp recovery in 2021. A delay to this sharp recovery would likely exercise sustained pressure on its earnings and result in a more permanent deterioration of asset quality given single-name concentration risk in its corporate exposure and sizeable consumer finance exposure through subsidiary Compass Banca, which would be difficult to restore within a short period of time. They would be downgraded if the economic and financial market disruption arising from the coronavirus outbreak is likely to reach a level that places sustained pressure on earnings, capitalisation and funding. Mediobanca's largely domestic focus means its ratings would be downgraded if Italy was downgraded. For Mediobanca's ratings to be upgraded, Italy would need to be upgraded.

CREDEM

Credem has headroom to emerge with its IDRs, VR, debt and deposit ratings intact due to the relative strength of its asset quality, capitalisation and funding profile, which are all in line with its VR. However, this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Italian economy. Credem's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. Under Fitch's downside scenario, which is based on a widespread global lockdown due to COVID-19, Italy's GDP would contract by 2.3% in 2020 before seeing a sharp recovery in 2021. A delay to this sharp recovery would likely exercise sustained pressure on its earnings and could result in a more marked deterioration of its asset quality given its exposure to SMEs and small businesses despite its business model geared towards lower-risk clients and strong underwriting standards have to date resulted in Credem outperforming the domestic sector. Credem's ratings would also be downgraded if Italy was downgraded. For Credem's ratings to be upgraded, Italy would need to be upgraded.

BNL

BNL's IDRs remain sensitive primarily to a change in Italy's sovereign rating and are likely to be downgraded if Italy is downgraded. The IDRs and Support Rating are also sensitive to a change in Fitch's assessment of BNPP's propensity and ability to provide support to BNL. If Italy's operating environment materially worsens, BNL's financial profile may negatively affect the parent group's and ultimately potentially reduce BNP Paribas S.A.'s commitments to support the Italian subsidiary.

The RWN on BNL's VR reflects the near-term risks to the rating arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The still above-average level of impaired loans and evident margin pressure resulting in weak profitability mean it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are i) an expected significant increase in impaired loans inflows; ii) an expected sustained reduction of its operating profitability; or iii) a further downward revision of Fitch's expectations for the Italian economy in 2020. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Italian government for direct losses from the COVID-19 disruption will cushion the financial impact on the bank's solvency, asset quality and earnings.

UBI

The rating sensitivities for UBI are those outlined in our Rating Action Commentary published in February 2020 (Fitch Places UBI on Rating Watch Positive on Exchange Offer Announcement).

SONDRIO

The RWN on Sondrio's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The still above-average level of impaired loans and the resulting pressure this has on its capitalisation and earnings means it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are i) an expected significant increase in impaired loans inflows; ii) an expected sustained reduction of its operating profitability; or iii) a further downward revision of Fitch's expectations for the Italian economy in 2020. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Italian government for direct losses from the COVID-19 disruption will cushion the financial impact on the bank's solvency, asset quality and earnings. The ratings remain sensitive to a deterioration of the bank's funding and liquidity profile.

VOLKSBANK

The RWN on Volksbank's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The less diverse business model compared with higher-rated domestic peers and regionally concentrated franchise in an area whose economic output is heavily dependent on tourism means it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are i) an expected significant increase in impaired loans inflows; ii) an expected sustained deterioration of its operating profitability, potentially resulting into losses eroding capital; or iii) a further downward revision of Fitch's expectations for the Italian economy in 2020. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Italian government for direct losses from the COVID-19 disruption or complementary measures put in place by the Province of Bolzano where the bank is based will cushion the financial impact on the bank's solvency, asset quality and earnings. The ratings remain sensitive to deterioration in the bank's funding and liquidity profile.

DESIO

The RWN on Desio's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The modest profitability and more vulnerable business model heavily focused on SME lending means it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are: i) sustained asset quality deterioration, especially if this results in higher capital encumbrance from unreserved impaired loans; ii) pressure on operating profitability from lower revenues and higher loan impairment charges; or iii) a further downward revision of Fitch's expectations for the Italian economy in 2020. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Italian government for direct losses from the

COVID-19 disruption will cushion the financial impact on the bank's solvency, asset quality and earnings. The ratings remain sensitive to a deterioration of the bank's funding and liquidity profile.

IFIS

The RWN on IFIS's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The vulnerable business model means it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are: i) a sustained profitability deterioration as a result of reduced volumes and revenue generation from its key business segments; ii) a significant deterioration in recovery prospects for purchased NPLs and higher impaired loans formation from its lending activities; or iii) a further downward revision of Fitch's expectations for the Italian economy in 2020. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Italian government for direct losses from the COVID-19 disruption will cushion the financial impact on the bank's solvency, asset quality and earnings. The ratings remain sensitive to deterioration in the bank's funding and liquidity profile.

BPER

The RWN on BPER's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The still weaker-than-average asset quality and modest operating profitability means it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are: i) sustained asset-quality deterioration leading to an increase in capital encumbrance from unreserved NPLs; ii) a protracted and material weakening in the bank's earnings; or iii) a further downward revision of Fitch's expectations for the Italian economy in 2020. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Italian government for direct losses from the COVID-19 disruption will cushion the financial impact on the bank's asset quality and earnings.

MPS

The RWN on MPS's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The still incomplete restructuring, large stock of impaired loans, weak profitability and vulnerable capitalisation means it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are: i) sustained asset-quality deterioration; ii) capital erosion on the back of credit losses; and iii) a further downward revision of Fitch's expectations for the Italian economy in 2020. The ratings also remain sensitive to a deterioration of the bank's funding and liquidity profile, for example if the bank was subject to idiosyncratic stress and experience deposit outflows given it is still one of the weakest credit institutions in Italy. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Italian government for direct losses from the COVID-19 disruption will cushion the financial impact on the bank's solvency, asset quality and earnings.

CARIGE

The RWN on Carige's ratings reflects the near-term risks to its ratings arising from the coronavirus outbreak and the heightened probability we will downgrade the bank. The materially damaged franchise and unprofitable business model mean it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent. Potential downgrade triggers are: i) sustained asset-quality deterioration followed by an increase in capital encumbrance from unreserved NPLs; ii) sustained capital erosion through losses; and iii) a further downward revision of Fitch's expectations for the Italian economy in 2020. The ratings also remain sensitive to a deterioration of the bank's funding and liquidity profile, for example if the bank was subject to idiosyncratic stress and experience deposit outflows given its weak credit profile. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Italian government for direct losses from the COVID-19 disruption will cushion the financial impact on the bank's solvency, asset quality and earnings.

GBCI

The Negative Outlook on GBCI's ratings reflects the risks to its ratings from the coronavirus outbreak. However, after the downgrade, GBCI has some rating headroom to emerge with its IDRs, VR, debt and deposit ratings intact due to the relative strength of its capitalisation and funding profile, which are above its VR. However, this outcome will depend on the ultimate depth and duration of the coronavirus shock to the Italian economy. GBCI's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. Under Fitch's downside scenario, which is based on a widespread global lockdown due to COVID-19, Italy's GDP would contract by 2.3% in 2020 before seeing a sharp recovery in 2021. A delay to this sharp recovery would likely result in more permanent damage to asset quality and potentially to capital if the group was to report sustained losses. Both asset quality and capitalisation would be difficult to restore within a short period of time, particularly since we consider access to capital to be less certain given its cooperative group status.

For the Outlook to be revised to Stable, GBCI would have to show reasonable control over new impaired loan inflows, maintain unreserved impaired loans in relation to capital at controlled levels, capacity to defend its capital position and keep credit losses at manageable levels.

Public Ratings with Credit Linkage to other ratings

Banca IMI's IDRs are driven by institutional support from Intesa Sanpaolo SpA. A change in Fitch's assessment of the ratings of Intesa Sanpaolo S.p.A. would result in a change in the ratings of the related entity. The ratings of the debt issued by Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, S.A. and Intesa Funding LLC are driven by the ratings of the guarantor (Intesa Sanpaolo SpA). A change in Fitch's assessment of the ratings of Intesa Sanpaolo S.p.A. would result in a change in the ratings of the debt issued related entity.

The ratings of the debt issued by Mediobanca International (Luxembourg) SA are driven by the ratings of the guarantor (Mediobanca SpA). A change in Fitch's assessment of the ratings of Mediobanca S.p.A. would result in a change in the ratings of the debt issued related entity

The ratings of Banca Nazionale del Lavoro S.P.A. are directly linked to the ratings of BNP Paribas S.A.. A change in Fitch's assessment of the ratings of BNP Paribas S.A. may result in a change in the ratings of the related entity

ESG Considerations

Carige has an ESG Relevance Score of '4' for Governance Structure, reflecting that at this stage, the effectiveness of the bank's future corporate governance and senior management is yet to be tested, which in conjunction with other factors, limits Fitch's assessment of the bank's credit profile.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

VIEW ADDITIONAL RATING DETAILS

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Applicable Criteria

Bank Rating Criteria (pub. 28 Feb 2020)

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