FitchRatings

FITCH REVISES 4 ITALIAN BANKS' OUTLOOKS TO NEGATIVE ON SOVEREIGN OUTLOOK REVISION

Fitch Ratings-Milan/London-28 October 2016: Fitch Ratings has revised the Outlooks of Intesa Sanpaolo (IntesaSP), Credito Emiliano (Credem), Mediobanca and Banca Nazionale del Lavoro (BNL) to Negative from Stable while affirming their Long- and Short-Term Issuer Default Ratings (IDRs). A full list of rating actions is available at the end of this rating action commentary.

The four banks' Outlook revision to Negative follows the revision of Italy's Outlook to Negative (see: "Fitch Revises Italy's Outlook to Negative; Affirms at 'BBB+'" dated 21 October 2016 at www.fitchratings.com).

KEY RATING DRIVERS
IntesaSP's, Credem's and Mediobanca's IDRs are based on their standalone credit profiles as reflected in their Viability Ratings (VRs) which, in turn, are at the same level as the Sovereign Long-Term IDR. The Negative Outlook for these banks primarily reflects our view that their VRs and Long-term IDRs are likely to be downgraded if Italy's ratings are downgraded. The three banks' activities are entirely or predominantly domestic.

BNL's Outlook revision to Negative reflects our view that a downgrade of Italy's ratings and a deterioration of the operating environment in Italy would negatively affect BNL's performance and prospects. This could ultimately reduce its parent BNP Paribas' (A+/Stable) propensity to provide support to its Italian subsidiary, which would result in a downgrade of BNL's IDRs.

VRs, IDRs and Senior Debt
IntesaSP
The ratings reflect the strong and diversified domestic franchise of IntesaSP as Italy's second-largest bank, which has enabled it to generate better operating profit than its domestic peers. The ratings also reflect resilient capitalisation, driven by reasonable internal capital generation, and adequate funding and liquidity.

Fitch views IntesaSP's asset quality, which compares unfavourably with international peers, as weak because a fairly large proportion of capital is tied up in unreserved impaired loans.

The ratings of senior debt issued by IntesaSP's funding vehicles, Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, S.A. and Intesa Funding LLC, are equalised with that of the parent as the debt is unconditionally and irrevocably guaranteed by IntesaSP.

Subsidiary and Affiliated Company
The ratings of IntesaSP's Italian subsidiary Banca IMI are based on institutional support and reflect Fitch's view of Banca IMI's core function within the group and its close integration within the group.

Credem
The ratings reflect Credem's moderately healthy asset quality, sound capitalisation and resilient profitability, due to a business model that is more diverse than that of many other Italian medium-sized commercial banks. Asset quality has been helped by the bank's strategy of targeting customers of stronger credit quality.

Mediobanca

The ratings reflect the group's adequate capitalisation and leverage, which are maintained with satisfactory buffers over regulatory minimums and are commensurate with the bank's risk profile.

Mediobanca benefits from a strong franchise in specialised businesses in Italy, which provides it with business and revenue diversification, although operating profit continues to rely on proceeds from its large equity stake in Italian insurer, Assicurazioni Generali, and fluctuate due to the bank's more cyclical businesses.

The ratings factor in the bank's reasonable risk appetite but which is at risk from continued expansion, as well as better asset quality than domestic peers. The ratings take also into account a funding profile that is biased towards wholesale and retail bonds placed through third-party networks, complemented by sound liquidity.

The ratings of the senior debt issued by Mediobanca International (Luxemburg) SA are equalised with that of the parent since the debt is unconditionally and irrevocably guaranteed by Mediobanca.

Support Ratings and Support Rating Floors

IntesaSP, Credem and Mediobanca

IntesaSP's, Credem's and Mediobanca's Support Ratings (SRs) and Support Rating Floors (SRFs) reflect our view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that a bank becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that require senior creditors participating in losses, if necessary, instead, or ahead, of a bank receiving sovereign support.

IDRs, Senior Debt and Support Rating

BNL

The IDRs and SR reflect institutional support from BNL's parent, BNP Paribas. Fitch views BNL as core to BNP Paribas' strategy as Italy is a home market for the French group. BNL's IDRs and SR are capped at one notch above Italy's sovereign rating of 'BBB+'. This reflects Fitch's view that BNP Paribas' propensity to support BNL is linked to Italy's operating environment, since this affects the attractiveness of BNL to the group and BNL's impact on the group's financial profile.

Subordinated Debt and Other Hybrid Securities

IntesaSP, Credem and Mediobanca

Subordinated debt and other hybrid capital issued by the banks are all notched down from their respective VRs in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably.

IntesaSP's AT1 notes are rated five notches below the bank's VR, comprising two notches for loss severity relative to senior unsecured creditors and three notches for incremental non-performance risk relative to the VR. The notching for non-performance risk reflects the instruments' fully discretionary interest payment.

RATING SENSITIVITIES

VR, IDRs and Senior Debt

IntesaSP

IntesaSP's ratings are primarily sensitive to deterioration in the operating environment in Italy and to Italy's sovereign ratings. If Italy's sovereign rating is downgraded, IntesaSP's VRs, IDRs and debt ratings would be downgraded.

IntesaSP's ratings could also be downgraded if the bank fails to accelerate the reduction of its impaired loans or if its capital remains highly exposed to unreserved impaired loans. Similarly, a deterioration in the bank's funding and liquidity would put pressure on the ratings as well as signs of an inflexible dividend policy.

The ratings of the senior debt issued by IntesaSP's funding vehicles, Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, S.A. and Intesa Funding LLC, are sensitive to the same considerations that affect the senior unsecured debt issued by the parent.

Credem
Credem's ratings are sensitive to deterioration in the operating environment in Italy and to Italy's sovereign ratings. If Italy's sovereign rating is downgraded, Credem's VRs, IDRs and debt ratings would be downgraded.

Credem's VR and IDRs are also sensitive to a material deterioration in asset quality, which could be the result of weaker underwriting standards, which we do not expect. The ratings could also be downgraded if its capitalisation deteriorates as a result of strong loan growth or if the bank increases its risk appetite.

Mediobanca
Mediobanca's ratings are primarily sensitive to deterioration in the operating environment in Italy and to Italy's sovereign ratings. If Italy's sovereign rating is downgraded, Mediobanca's VR, IDRs and debt ratings would be downgraded.

Increased risk appetite, such as expanding higher-risk activities in non-Italian operations, increasing concentration risk, a less rigorous approach to pricing consumer finance risks or asset quality deterioration could also lead to a downgrade. Similarly, significantly increased volumes of foreign-originated activities without an equivalent tightening of its risk controls framework could put pressure on the bank's ratings. Deterioration in group liquidity and funding could also result in a downgrade.

Support Rating and Support Rating Floor
IntesaSP, Credem and Mediobanca
An upgrade of the SRs and upward revision of the SRFs would be contingent on a positive change in the sovereign's propensity to support the banks. While not impossible, in Fitch's view this is highly unlikely.

IDRs, Senior Debt and SR
BNL
BNL's IDRs and SR are primarily sensitive to a change in Italy's sovereign rating and would likely be downgraded if Italy is downgraded. The IDRs and SR are also sensitive to a change in Fitch's assessment of BNP Paribas' propensity and ability to provide support to its subsidiary. A downgrade of BNP Paribas' IDRs will only affect BNL's IDRs and SR if the parent's Long-Term IDR is downgraded by more than two notches. The Short-Term IDR may come under pressure if short-term liquidity support from its parent weakens, which Fitch currently does not expect.

Subordinated Debt and Other Hybrid Securities
IntesaSP, Credem and Mediobanca
The ratings of the securities are primarily sensitive to changes in the issuing banks' VRs. The ratings are also sensitive to a change in the notes' notching, which could arise if Fitch changes its assessment of their non-performance relative to the risk captured in the VR. For AT1 issues this could reflect a change in capital management or flexibility or an unexpected shift in regulatory buffers and requirements, for example.

Subsidiary and Affiliated Companies

Banca IMI's ratings are sensitive to changes in IntesaSP's propensity to provide support respectively and to changes in the parent's Long-Term IDRs.

The rating actions are as follows:

IntesaSP
Long-Term IDR: affirmed at 'BBB+'; Outlook Revised to Negative from Stable
Short-Term IDR: affirmed at 'F2'
VR: affirmed at 'bbb+'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior debt (including debt issuance programmes): affirmed at 'BBB+'/ 'F2'
Commercial paper/certificate of deposit programmes: affirmed at 'F2'
Short-term deposits affirmed at 'F2'
Senior market-linked notes: affirmed at 'BBB+emr'
Subordinated lower Tier II debt: affirmed at 'BBB'
Subordinated upper Tier II debt: affirmed at 'BB+'
Tier 1 instruments: affirmed at 'BB'
AT1 notes: affirmed at 'BB-'

Banca IMI S.p.A.:
Long-Term IDR: affirmed at 'BBB+'; Outlook Revised to Negative from Stable
Short-Term IDR: affirmed at 'F2'
Support Rating: affirmed at '2'
Senior debt (including programme ratings): affirmed at 'BBB+'

Intesa Sanpaolo Bank Ireland plc:
Commercial paper/Short-term debt affirmed at 'F2'
Senior unsecured debt: affirmed at 'BBB+'

Intesa Sanpaolo Bank Luxembourg, S.A.:
Commercial paper and Short-term debt: affirmed at 'F2'
Senior unsecured debt: affirmed at 'BBB+'

Intesa Funding LLC:
US commercial paper programme: affirmed at 'F2'

Credito Emiliano
Long-Term IDR: affirmed at 'BBB+'; Outlook Revised to Negative from Stable
Short-Term IDR: affirmed at 'F2'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior unsecured EMTN programme: affirmed at 'BBB+'
Subordinated note: affirmed at 'BBB'

Mediobanca S.p.A.
Long-Term IDR: affirmed at 'BBB+'; Outlook revised to Negative from Stable
Short-Term IDR: affirmed at 'F2'
Viability Rating: affirmed at 'bbb+'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Senior unsecured short-term and long-term debt: affirmed at 'F2'/'BBB+'
Market-linked notes: affirmed at 'BBB+emr'
Subordinated debt: affirmed at 'BBB'

Mediobanca International (Luxemburg) SA
Senior unsecured short-term and long-term debt: affirmed at 'F2'/'BBB+'
Banca Nazionale del Lavoro
Long-term IDR: affirmed at 'A-'; Outlook Revised to Negative from Stable
Short-term IDR: affirmed at 'F1'
Viability Rating: 'bb+'; not affected
Support Rating: affirmed at '1'
Senior debt: affirmed at 'A-'

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Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 15 Jul 2016)
https://www.fitchratings.com/site/re/884135