S&P Global
Ratings

RatingsDirect®

Istituto per il Credito Sportivo

Primary Credit Analyst:
Letizia Conversano, Dublin (39) 02-72111-283; letizia.conversano@spglobal.com

Secondary Contact:
Regina Argenio, Milan (39) 02-72111-208; regina.argenio@spglobal.com

Table Of Contents

Istituto per il Credito Sportivo

SACP	bbb-	+	Support	0	+	Additional Factors	0

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

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

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:	Weaknesses:
• Very strong capitalization. • Ongoing support from the Italian government. • Customer portfolio rebalancing toward public counterparties.	• Material single-name concentration. • Higher-than-peers NPE ratio. • Concentration in a mono line business and no revenue diversification.

Outlook: Stable

The stable outlook on Istituto per il Credito Sportivo (ICS) factors in our view that the bank will preserve its very strong capital base over the next 18-24 months on the back of contained loan growth and stable organic capital generation, while making constant progress in improving its asset quality.

We could lower the ratings if we perceived a diminished commitment from the Italian government toward ICS, possibly reflected in a request for a capital reduction, or reduced funding or business support. We could also consider a downgrade if the workout of ICS's stock of NPEs did not proceed in line with our expectations, with a projected NPE ratio below 13% by end-2020, from about 16.8% as of September 2018.

Alternatively, and if we revise the sovereign outlook to stable, we could consider raising the ratings if we observed a material reduction in ICS's nonperforming exposure (NPE) ratio to a level comparable with the domestic average, which we estimate at approximately 10% by year-end 2020. In addition to the NPE reduction, a positive action would also stem from the bank's ability to materially diminish the existing single-name concentration in its loan book, while other factors underpinning the bank's creditworthiness remain unchanged.

Rationale

Our ratings primarily reflect our view that ICS will be able to preserve its very strong capitalization in the coming years, on the back of contained loan growth and stable organic capital generation capacity. Specifically, we anticipate that the bank's risk-adjusted capital (RAC) ratio will be 35%-38% by end-2020.

We see the reliance on this excess capital as one indication of the ongoing government support that underpins the bank's creditworthiness. ICS also benefits from government funding and business support, in our view. This is reflected in both the bank's ability to rollover long-term funding at favorable prices with its shareholders and the Italian Ministry of Finance's availability to reinvest the dividends received by ICS in the bank's business.

That said, the still-high single-name portfolio concentration will continue to constrain ICS' credit profile, driving a weaker-than-average asset quality performance in 2018-2020. This mainly derives from pre-2011 lending and underwriting practices toward private sector counterparties.

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 its peers, despite the improvement made in the last three years. Gradual economic recovery in past quarters in Italy has spurred on Italian banks to reduce their large stock of nonperforming exposures (NPEs), helped by a more developed secondary market for those assets. The overall gross stock of NPEs fell to €221 billion as of June, around 12.5% of customer loans compared with €340 billion in 2015, mainly thanks to disposals. If the economy progresses as we think, we anticipate the improving trend to continue, with the stock of NPEs falling below 10% in 2020. While this represents material progress, this stock would still represent a tail-risk if the Italian economy deteriorates materially. Moreover, the substantial amount of time needed for creditors in Italy to recover collateral and settle lawsuits--due to the less effective insolvency and foreclosure procedures and judicial system--is likely to remain an obstacle to a more material reduction of the stock than we currently envisage.

Industry risks for Italian banks are also higher than for banks in peer countries, in our opinion. Many banks' access to markets is likely to remain limited and the cost of financing could remain higher than in other European Economic and Monetary Union (eurozone) banking sectors. We acknowledge that the abundant liquidity provided to Italian banks by the European Central Bank (ECB) over the years, and the banking sector's very low external position--just 5% excluding ECB funding--have so far largely cushioned the effects of this constrained access. In this context, if market pressure due to increased concerns about the Italian sovereign's creditworthiness were to rise further and for a prolonged period, this could erode the banks' already modest profitability and their funding profiles. Structural problems, such as high cost bases and fragmentation, paired with still very low interest rates, will continue to constrain the banks' profitability, in our opinion.

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

Table 1

Istituto per il Credito Sportivo Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2018***	**2011**	**2010**	**2009**	**2008**
Adjusted assets	2,835.9	2,005.6	1,924.5	1,862.4	1,813.3
Customer loans (gross)	1,827.8	1,944.8	1,846.4	1,805.4	1,777.5
Adjusted common equity	943.4	745.5	732.3	728.4	723.9
Operating revenues	416.9	50.0	49.2	50.3	46.5
Noninterest expenses	130.8	20.6	22.1	22.5	20.4
Core earnings	105.8	14.3	16.2	17.3	17.1

*Data refer to the entire period of the extraordinary administration (01.01.2012-28.02.2018).

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

ICS is a public bank with the status of a public entity ("ente di diritto pubblico"), primarily focused on financing Italian sports facilities through subsidized loans. With the release of ICS' new articles of association in April 2014, the bank's ownership structure has changed to better reflect its status as a public bank. Indeed, the government now holds 89.3% of ICS' equity, both directly and indirectly, through Cassa Depositi e Prestiti (CDP) and CONI (the Italian Olympic Committee - "Comitato Olimpico Nazionale Italiano"), compared to the previous 25% ownership. The remaining 75% of ICS' equity used to be held by other Italian commercial banks. The discrepancy between the bank's ownership structure and the composition of its management board--which was mostly composed of members appointed by the government--resulted in ICS' inability of renewing its board of directors. This led to the initiation of the extraordinary administration procedure on June 17, 2011, which lasted until March 1, 2018.

With the conclusion of the extraordinary administration period, we expect ICS to compete with domestic peers on a plain field, while maintaining its government-related-entity status. This means that the bank will have to remain focused on working-out its material stock of NPEs effectively (16.8% as of September 2018) and on promoting initiatives to stimulate the bank's business expansion in the coming years.

In this regard, we believe that ICS' business prospects will remain on a positive trend in 2018-2020. Specifically, we expect ICS' gross customer loans portfolio to increase by a further 13% between 2018-2020, in addition to the cumulative 13% growth reported since year-end 2016, after several years of deleveraging. The successful implementation of ICS' business plan, which encompasses new initiatives launched in collaboration with the Italian government and other Italian national federations, will likely positively affect ICS' lending volumes over the next few years.

We also anticipate that ICS will continue to rebalance its credit portfolio toward less risky sectors--mainly municipalities and provinces--while reducing its single-name concentration. We estimate that 71% of the mortgage loans disbursed as of September 2018 were granted to local governments and municipalities, bringing total public-entities lending to more than 52% of the credit portfolio (from 48% at end-2014).

The multifaceted support from the Italian government, together with the bank's ties with public entities, will continue to sustain ICS' revenue and business stability, despite its concentration in a purely domestic-oriented niche market. While interest income accounts for the bulk of ICS' revenues, we estimate that, on average, 36% of Italian banks' operating revenues comes from net fee income.

Table 2

Istituto per il Credito Sportivo Business Position					
		--Year-ended Dec. 31--			
(%)	**2018***	**2011**	**2010**	**2009**	**2008**
Total revenues from business line (currency in millions)	417.0	50.0	49.2	50.4	46.5
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	N/A	1.8	2.1	2.3	2.2

*Data refer to the entire period of the extraordinary administration (01.01.2012-28.02.2018).

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: Large capital base

We anticipate that ICS' RAC ratio will remain at about 38% by end-2020, down from an estimated 47% RAC at end-2017, driven by the bank's lending growth and modest internal capital generation capacity.

Despite this large capital base of more than €900 billion--which is particularly sizable compared with a relatively contained projected total amount of assets--we continue to assume the government is unlikely to ask ICS to return any excess to its shareholders over the next couple of years.

We expect ICS' earnings capacity to remain stable in 2018-2020 and to continue supporting the bank's capital position. Specifically, we see a progressively decreasing cost of risk and increasing business volumes, as the main driver of the bank's profitability over the next years. Specifically, we estimate ICS' cost-of-risk to decrease to 50-60 bps over the next couple of years, in line with system average. Our assessment of credit losses reflect ICS' more prudent lending strategy and heightened risk management practices. These factors led its portfolio's average default rate to reduce to 0.90% in 2016 from 5.06% in 2011. On the other hand, our forecasts also consider the high level of public guarantees from public authorities and from large banks that collateralize around 50% of ICS' loan portfolio. Finally, we expect the current market turbulence to have a lower impact on ICS' cost-of-financing compared to other Italian regional peers. Our view stems from the bank's high reliance on the ECB as a cheaper source of funding, and funding support from its shareholders.

Table 3

Istituto per il Credito Sportivo Capital And Earnings					
		--Year-ended Dec. 31--			
(%)	**2018***	**2011**	**2010**	**2009**	**2008**
Tier 1 capital ratio	102.8	85.0	61.0	56.0	62.3
S&P Global Ratings' RAC ratio before diversification	N/A	114.6	139.3	96.3	N/A
S&P Global Ratings' RAC ratio after diversification	N/A	60.4	74.8	71.4	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	82.4	97.2	97.5	98.3	98.9
Fee income/operating revenues	(0.3)	0.2	0.1	0.2	(0.0)

Table 3

Istituto per il Credito Sportivo Capital And Earnings (cont.)

		--Year-ended Dec. 31--			
(%)	**2018***	**2011**	**2010**	**2009**	**2008**
Market-sensitive income/operating revenues	16.6	0.0	0.3	(0.4)	0.0
Noninterest expenses/operating revenues	31.4	41.3	44.9	44.6	43.8
Preprovision operating income/average assets	N/A	1.5	1.4	1.5	1.4
Core earnings/average managed assets	N/A	0.7	0.9	0.9	0.9

*Data refer to the entire period of the extraordinary administration (01.01.2012-28.02.2018).

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Istituto per il Credito Sportivo RACF [Risk-Adjusted Capital Framework] Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government and central banks	1,068	0	0	604	57
	--				
Institutions and CCPs	139	0	0	94	68
Corporate	1,396	0	0	1,147	82
Retail	0	0	0	0	0
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets†	248	0	0	436	176
Total credit risk	2,851	0	0	2,281	80
Credit valuation adjustment					
Total credit valuation adjustment	--	0	--	0	--
Market risk					
Equity in the banking book	0	0	0	0	0
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	0	--
Operational risk					
Total operational risk	--	0	--	188	--
(Mil. €)		**Basel III RWA**		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		0		2,468	100
Total Diversification/Concentration Adjustments		--		1,005	41
RWA after diversification		0		3,473	141

Table 4

Istituto per il Credito Sportivo RACF [Risk-Adjusted Capital Framework] Data (cont.)				
(Mil. €)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	926	99.4	931	37.7
Capital ratio after adjustments‡	926	99.4	931	26.8

*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡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. Sources: Company data as of Dec. 31, 2016, S&P Global.

Risk position: Risks from high concentration will continue weight on asset quality performance

We expect that ICS' will remain focused on working-out its high NPE stock over 2018-2020--at 16.8% of the bank's customer loans as of September 2018, up from the 5.2% reported as of end-2011. This material asset quality deterioration was mainly driven by a few large exposures becoming delinquent. This reflects, in our view, the risk embedded in the bank's high single-name concentration, with many of its largest borrowers coming from the private sector (football clubs, sports associations, and other private sports-related entities).

Although linked to riskier pre-2011 lending practices, the portfolio's material single-name concentration will likely continue to represent a burden for the bank's asset quality over the forecasted horizon.

Therefore, we anticipate that the NPE stock will likely reduce at a slower pace compared with the Italian average, and with higher-rated banks in particular. Specifically, we expect ICS' NPE stock to decrease below 13% of the bank's customer loans by end-2020, compared to 10% at the system level by the same date.

Table 5

Istituto per il Credito Sportivo Risk Position					
		--Year-ended Dec. 31--			
(%)	**2018***	**2011**	**2010**	**2009**	**2008**
Growth in customer loans	N.M.	5.3	2.3	1.6	(0.0)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	89.6	86.2	34.8	N/A
Total managed assets/adjusted common equity (x)	3.0	2.7	2.6	2.6	2.5
New loan loss provisions/average customer loans	N/A	0.3	0.1	0.1	(0.0)
Gross nonperforming assets/customer loans + other real estate owned	17.3	5.2	4.6	6.2	4.7
Loan loss reserves/gross nonperforming assets	41.2	19.7	19.5	12.8	15.2

*Data refer to the entire period of the extraordinary administration (01.01.2012-28.02.2018).

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

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

ICS' funding profile will continue to strongly benefits from ongoing shareholder support, namely Cassa Depositi e Prestiti. Although ICS has been increasing its exposure to cheaper ECB funding, we continue to see ICS' shareholders generally able and willing to support the bank in case of need.

As of September 2018, resources from ECB accounted for about €1.07 billion (€580 million at end-2014), out of which about €250 million was TLTRO II. ECB's financing represents about 55% of the bank's total funding base, while funding from shareholders Cassa Depositi e Prestiti and Dexia Crediop amounted to about 25% (down from 36% at end-2014).

At end-November 2018, ICS managed to obtain €150 million financing from the Council of Europe Development Bank (CEB). Although we think this could enable ICS to potentially increase the diversification of its funding base, we do not expect it will significantly change the bank's financing structure in the medium term.

ICS' will maintain sufficient liquidity in case of need, in our view. Its government bonds portfolio sufficiently covers its short-term wholesale funding by 1.2x.

ICS also benefits from additional funding sources from its administration, on the state's behalf, of the "Fondo Speciale per Contributi sugli Interessi," as well as "Fondo di Garanzia," which supplies most of ICS' short-term funding. ICS uses these funds to finance various projects in Italy. The possibility of accessing this additional source of funding supports the bank's liquidity position, in our view.

Table 6

Istituto per il Credito Sportivo Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2018***	**2011**	**2010**	**2009**	**2008**
Core deposits/funding base	2.4	0.0	0.0	0.0	0.0
Customer loans (net)/customer deposits	N.M.	N.M.	N.M.	N.M.	N.M.
Long-term funding ratio	69.2	89.6	88.9	87.4	100.0
Stable funding ratio	106.4	89.6	88.5	86.9	N/A
Short-term wholesale funding/funding base	47.4	17.1	19.0	21.7	0.0
Broad liquid assets/short-term wholesale funding (x)	1.3	0.2	0.2	0.1	N/A
Net broad liquid assets/short-term customer deposits	263.1	N.M.	N.M.	(444.9)	N/A
Short-term wholesale funding/total wholesale funding	48.5	17.1	19.0	21.7	0.0

*Data refer to the entire period of the extraordinary administration (01.01.2012-28.02.2018).

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

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

We consider ICS to have low systemic importance within the supportive Italian banking sector. However, we classify ICS as a 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.

In accordance with our criteria for GREs, our view of the moderately high likelihood of extraordinary government support is based on our assessment of ICS':

- Limited importance in terms of its role for the government, given its role as a niche player on behalf of the government in financing Italian sports facilities and our belief that 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 a 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.

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
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- 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

- Outlook On Italy Revised To Negative On Risks To Economic Growth Following Budget Plan; Ratings Affirmed At 'BBB/A-2', Oct. 26, 2018
- Various Italian Bank Outlooks Revised To Negative After Action On Sovereign And BICRA Industry Trend; Ratings Affirmed, Oct. 30, 2018
- Banking Industry Country Risk Assessment: Italy, Nov. 16, 2017

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 December 14, 2018)	
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/Negative/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.