Fitch Ratings

12 May 2020 | Downgrade

Fitch Downgrades Four Italian Banks Following Sovereign Downgrade

Fitch Ratings-Milan-12 May 2020:

Fitch Ratings has downgraded UniCredit S.p.A.'s, Intesa Sanpaolo's (IntesaSP) and Mediobanca S.p.A.'s Long-Term Issuer Default Ratings (IDR) to 'BBB-' from 'BBB'. The Outlooks are Stable. Fitch has also downgraded Unione di Banche Italiane S.p.A.'s (UBI) Long-Term IDR to 'BB+' from 'BBB-' and maintained it on Rating Watch Positive (RWP) to reflect IntesaSP's exchange offer for the bank.

UniCredit's and IntesaSP's Short-Term IDRs have been downgraded to 'F3' from 'F2' and UBI's Short-term IDR has been downgraded to 'B'/RWP from 'F3'/RWP.

A list of rating actions can be accessed through the link below.

The rating actions on the banks follow the downgrade of Italy's sovereign rating to 'BBB-'/Stable/'F3' from 'BBB'/Negative/'F2' due to the significant impact of the COVID-19 pandemic on Italy's economy and the sovereign's fiscal position (see "Fitch Downgrades Italy to 'BBB-'; Outlook Stable" dated 28 April 2020 at www.fitchratings.com).

In our opinion, UniCredit's, IntesaSP's and Mediobanca's Long-Term IDRs should not be rated above Italy's sovereign rating. For IntesaSP and Mediobanca this is because their activities are predominantly domestic and their IDRs and Viability Ratings (VRs) are therefore highly affected by the risk profile of the domestic economy and the Italian sovereign, which in turn are significantly affected by the economic effects of the coronavirus outbreak.

While UniCredit's geographical diversification in more stable and highly rated economies such as Germany and Austria has proved key to supporting the group's consolidated risk profile, Fitch nonetheless considers that: i) the parent (and rated) bank's risk profile remains highly correlated with that of the Italian sovereign and with Italy's economy; and ii) the pandemic represents a challenge for the bank since it will have to manage tougher economic conditions not only in Italy but in its other core markets.

UBI's lower Long-Term IDR and VR reflect the relative weakness of its credit profile compared with its higher-rated domestic peers, which mainly arises from a less-diversified business model, weaker profitability and smaller capital buffers.

Under Fitch's forecasts, which are based on an extended lockdown to halt the spread of the coronavirus, Italy's GDP is expected to contract by 8% in 2020 before seeing a partial recovery of 3.7% in 2021. However, risks to this baseline forecast are tilted to the downside, as it assumes that the coronavirus can be contained in 2H20, leading to a relatively strong economic rebound in 2021. However, the strength of the recovery beyond 2021 is highly uncertain, given the underlying weaknesses of the economy and Italy's poor performance following the global financial crisis, when only around half of the lost output was regained by 2012.

The Stable Outlook on Italy's sovereign rating partly reflects Fitch's view that the ECB's net asset purchases will facilitate Italy's substantial fiscal response to the coronavirus pandemic and ease refinancing risks by keeping borrowing costs at very low levels at least over the near term. We consider banks' funding profiles and market access to be influenced by perceptions of Italian sovereign risk, but believe risks to the banks' liquidity profiles to be similarly supported by ECB funding programmes.

The Stable Outlooks on the Long-Term IDRs of UniCredit, IntesaSP and Mediobanca reflect the relative strength of their capitalisation, and that under various possible downside scenarios to our baseline, we expect the banks to maintain sufficient capital, irrespective of a likely reduction in profitability, to absorb higher credit quality risks.

In accordance with Fitch's policies, the issuers appealed and provided additional information to Fitch that resulted in a rating action that is different than the original rating committee outcome.

Key Rating Drivers

INTESASP

IDRS, VR, DERIVATIVE COUNTERPARTY RATING (DCR) AND SENIOR DEBT

IntesaSP's ratings reflect the significant influence that the Italian economy and Italian sovereign risk have on its credit profile. In downgrading Intesa's ratings, we have considered the following: i) higher execution challenges facing the bank in the weaker operating environment; ii) the likelihood of a weaker medium-term profitability; iii) potential pressure on capitalisation, primarily from higher impaired loan encumbrance; iv) the link between sovereign risk and the bank's funding profile and market access. We expect IntesaSP's capitalisation to remain resilient through the crisis and this has a high influence on its ratings.

Following the downgrade, IntesaSP's ratings continue to reflect its leading franchise in Italy and its diverse and stable business model, with established banking and wealth management operations, which have to date supported earnings generation through economic and interest-rate cycles. The ratings remain underpinned by IntesaSP's sound capitalisation although potentially under pressure, and strong funding and liquidity relative to its VR.

Fitch believes that despite the benefits of its diverse business model and established ability to deliver resilient results, IntesaSP's risk profile is highly correlated with Italy's, given the group's wide exposure to the Italian economy and large holdings of Italian sovereign debt (around 80% of common equity Tier 1 (CET1) capital at end-1Q20). Its predominantly domestic operations will likely make it more difficult for IntesaSP to achieve its strategic objectives in line with plans, given the prospects of a severe GDP contraction for Italy in 2020, followed by a partial recovery. We expect operating profitability to suffer from lower business volumes and higher loan impairment charges (LICs) in 2020.

We consider IntesaSP's asset quality to be vulnerable to deterioration as a large part of Italian borrowers are likely to exit the lockdown period weaker and more indebted but we acknowledge in our assessment the bank's profit absorption capacity to restore its asset quality metrics over the medium term. Despite improvements, the bank's asset quality with an impaired loan ratio of 7.6% at end-1Q20 (9.7% at end-2018 as calculated by Fitch) remains weak by international standards and is a rating weakness.

Capitalisation (14.5% fully-loaded CET1 ratio at end-1Q20, after deduction of accrued dividend for 1Q20) is a relative rating strength, but was still moderately exposed to unreserved impaired loans as the pandemic took hold (about one-fifth of equity at end-1Q20), increasing the bank's vulnerability to severe shocks.

The Short-Term IDR and short-term senior debt ratings have been downgraded to 'F3', in line with its 'BBB-' Long-Term IDR under our criteria. Our assessment of funding and liquidity reflects our view that IntesaSP benefits from the strongest customer deposit franchise in Italy, but also that its funding profile and market access is influenced by perceptions of sovereign risk. Access to the central bank facilities made available in response to the crisis underpins IntesaSP's funding and liquidity.

IntesaSP's DCR and senior debt ratings are at the same level as its IDRs. In Italy derivative counterparties have no preferential legal status over senior debt in liquidation and IntesaSP's senior debt does not meet the conditions to be notched up above the bank's IDR.

SUBSIDIARY AND AFFILIATED COMPANY

Banca IMI's (IMI) ratings are based on institutional support from its parent and its IDRs are aligned with IntesaSP's, reflecting Fitch's view of its core function as the group's investment banking arm and extremely high operational and balance-sheet integration with its parent. IMI's DCR is at the same level as the Long-Term IDR because in Italy derivative counterparties have no preferential legal status over other senior debt in a liquidation. IMI will be merged into its parent during 2020.

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 equalised with that of the parent because the debt is unconditionally and irrevocably guaranteed by IntesaSP and Fitch expects the parent to honour this guarantee.

UNICREDIT

IDRS, VR, DERIVATIVE COUNTERPARTY RATING (DCR) AND SENIOR DEBT

UniCredit's ratings reflect the significant influence that the Italian economy and sovereign risk have on the parent bank's overall risk profile, despite its diversification into more stable and higher-growth countries than Italy. In downgrading Unicredit's ratings, we have considered the following: i) the weakened ability of the bank's franchise to generate profits given the expected economic contraction in its geographies; ii) the likelihood of lower medium-term profitability; iii) potential pressure on capitalisation, primarily from higher impaired loan encumbrance; iv) the link between Italy's sovereign risk and the bank's funding profile and market access. We expect UniCredit's capitalisation to remain resilient through the crisis and this has a high influence on its ratings.

UniCredit enters the downturn after improving its financial performance over the past three years, including a reduction in impaired loans, a gradual recovery in operating profitability, maintaining satisfactory capital buffers over regulatory minimum requirements and completing its TLAC/MREL (total loss-absorbing capacity/minimum required own funds and eligible liabilities) funding plan.

The ratings are moderately supported by UniCredit's strong pan-European franchise, although the bank's overall risk profile is influenced by its large operations in Italy where the economic outlook is weaker than in many other European countries; by a still high, albeit declining, exposure to Italian sovereign debt (equivalent to around 95% of CET1 at end-1Q20); and by the expectation of concurrent GDP reductions in many other geographies where it is active. Fitch forecasts a 6.2% GDP contraction in Germany in 2020, followed by a partial recovery, while prospects for Austria appear even weaker.

Fitch believes that the economic downturn will render it more challenging for the bank to maintain low impaired loans, although we recognise the bank's increased discipline in originating new loans, stronger control framework and track record in materially deleveraging its legacy impaired loans. At end-1Q20, the bank's gross impaired loan ratio of 5.5% (8.8% at end-2018) was among the lowest domestically but was still well above the EU average.

We consider that despite the benefits of revenue diversification, its balance-sheet clean-up and lower costs, weaker business volumes and rising LICs will put pressure on the bank's operating profitability in 2020.

Capitalisation (13.44% CET1 ratio at end-1Q20, including suspended dividend for 2019) is a relative strength, but was still modestly exposed to unreserved impaired loans as the pandemic took hold (about 14% of equity at end-2019).

The Short-Term IDR and short-term senior debt ratings have been downgraded to 'F3' in line with the bank's 'BBB-' Long-Term IDR under our criteria. UniCredit's funding profile benefits from its pan-European deposit franchise in retail and commercial banking, which provides it with a sound proportion of customer deposits, and from diversified access to institutional debt market by instrument and geography at parent and subsidiary bank levels. At the parent bank level in particular, we believe UniCredit's funding profile and market access to be influenced by perceptions of Italian sovereign risk, but we expect the facilities approved by the ECB in response to the crisis to help underpin Unicredit's overall funding and liquidity profile.

Unicredit's DCR and senior debt ratings are at the same level as its IDRs. In Italy derivative counterparties have no preferential legal status over senior debt in liquidation and Unicredit's senior debt does not meet the conditions to be notched up above the bank's IDR.

UniCredit's senior non-preferred notes (SNP) are rated one notch below the bank's Long-Term IDR 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 additional Tier 1 (AT1), Tier 2 and SNP debt being unlikely to exceed 10% of risk-weighted assets. For the same reason, senior preferred notes are rated in line with the Long-Term IDR.

SUBSIDIARY AND AFFILIATED COMPANY

The ratings of senior debt issued by UniCredit's funding vehicles, UniCredit Bank (Ireland) plc, and UniCredit International Bank Luxembourg SA, are equalised with that of the parent because the debt is unconditionally and irrevocably guaranteed by UniCredit, and Fitch expects the parent to honor this guarantee.

MEDIOBANCA

VR, IDRs, DERIVATIVE COUTERPARTY RATING (DCR) AND SENIOR DEBT RATINGS

Mediobanca's ratings reflect the significant influence that the Italian economy and Italian sovereign risk have on its credit profile. In downgrading Mediobanca's ratings, we have considered the following: i) the likelihood of asset quality metrics deteriorating; ii) potential pressure on capitalisation; iii) the link between sovereign risk and the bank's funding profile and market access. We expect Mediobanca's capitalisation to remain resilient through the crisis and this has a high influence on its ratings.

Mediobanca's ratings reflect its sound capitalisation (13.9% transitional CET1 ratio at end-March 2020), and low leverage for its operating environment and profitability and asset quality better than domestic peers, 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.

Our assessment of asset quality (gross impaired loan ratio below 5% and coverage above 65% at end-March 2020) acknowledges that in previous cycles the bank consistently outperformed the domestic banking sector. However, we consider Mediobanca's asset quality vulnerable to the downturn given the significance of its domestic consumer and corporate exposure, the latter featuring higher-than-average borrower concentration levels.

We expect the impact of lower business volumes, primarily from its consumer and investment banking activities and higher LICs, but also a weaker contribution from equity accounted Assicurazioni Generali, to result in profit weakness.

We have lowered our assessment of Mediobanca's funding and liquidity following Italy's downgrade, since we considered its relative attractiveness to institutional investors has reduced and the cost of issuing new debt has increased, with Italian bank risk being repriced to reflect Italy being one of the worst affected economies by the pandemic.

We consider Mediobanca's funding and liquidity to be stable and diversified but less so than the largest domestic banks, given a smaller and less established customer deposit base, despite the bank's success in strengthening it through the expansion of its retail and wealth management franchise. This is partly compensated by a slightly lower central bank funding utilisation than large domestic peers, manageable medium-term funding needs, and adequate buffers of unencumbered eligible assets.

Our assessment of capitalisation, which shows encumbrance by unreserved impaired loans and sovereign risk consistently among the lowest among Italian banks, remains a relative rating strength.

Mediobanca's Short-Term IDR and short-term senior debt ratings have been affirmed at 'F3'. This is in line with our rating correspondence table for banks with 'BBB-' Long-Term IDRs.

Mediobanca's DCR and senior preferred debt ratings are at the same level as its IDRs. In Italy derivative counterparties have no preferential legal status over senior debt in liquidation and Mediobanca's senior debt does not meet the conditions to be notched up above the bank's IDR.

Mediobanca's SNP debt is rated one notch below the Long-Term IDR 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. For the same reason, the rating of senior preferred debt is in line with the Long-Term IDR.

SUBSIDIARY AND AFFILIATED COMPANIES

The ratings of the senior preferred debt issued by Mediobanca International (Luxembourg) SA are equalised with the parent's IDRs, and have therefore also been downgraded, since the debt is unconditionally and irrevocably guaranteed by Mediobanca, and Fitch expects the parent to honour this guarantee.

UBI

VR, IDRs AND SENIOR DEBT RATINGS

UBI's IDRs, deposit and debt ratings are currently based on its standalone strength, as reflected in its VR. The downgrade reflects UBI's comparatively weaker credit profile than those of its larger and higher rated domestic peers and leaves the bank more exposed to the consequences of Italy's downgrade and economic downturn. In downgrading UBI's ratings, we have also considered the following: i) its less diverse business model compared with higher rated peers, whose ability to generate revenue is likely to come under pressure; ii) above average appetite for own sovereign risk; iii) the likelihood of asset quality metrics deteriorating; iv) the likelihood of a weaker medium-term profitability.

We believe that UBI's ability to generate revenue in its main business line will weaken in the deteriorated economic environment. Lower revenue and higher LICs will further damage the bank's already weak profitability.

We also believe that it will be difficult for management to achieve the targets outlined in the new strategic plan for 2020-2022, which included several initiative to increase fees from wealth management and corporate and investment banking, cut costs and increase automation.

Deterioration in UBI's predominantly domestic loan book will lead to new impaired loans, while falling collateral values and slower court activity might harm impaired loan recoveries. Higher uncertainty in the financial markets might also lead to delays in the execution of planned impaired loan disposals. UBI enters the economic downturn with a gross impaired loans ratio of about 7.9% (end-2019), which is significantly lower than in the past but still high by international standards.

We view UBI's capitalisation as adequate owing to comfortable buffers over SREP requirements. However, capital remains more exposed than higher-rated peers to unreserved impaired loans and Italian sovereign bonds.

We view UBI's funding and liquidity as a relative rating strength thanks to its stable base of customer deposits and large liquidity buffers. However, we believe that Italy's downgrade will have repercussions on UBI's debt market access, potentially leading to higher funding costs.

UBI's IDRs, VR, senior, subordinated and deposit ratings remain on RWP because IntesaSP recently voted to proceed with the voluntary exchange offer on the entirety of UBI's ordinary shares. If the transaction is successful, UBI could benefit from institutional support from higher-rated IntesaSP as its majority shareholder, or see improvements in its standalone profile from being part of a stronger group. We expect to resolve the RWP on UBI's ratings once the exchange offer is completed. Execution of the transaction is planned for end-July 2020. However, the resolution of the RWP could take longer if the transaction is delayed or if the potential benefits for UBI's standalone risk profile and VR are not sufficiently clear at that point. For additional information, see Rating Sensitivities.

The Short-Term IDR and short-term senior debt ratings were downgraded to 'B'/RWP from 'F3'/RWP. UBI's SNP are rated one notch below the Long-Term IDR 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. For the same reason, senior preferred notes are in line with the IDRs.

SUPPORT RATING AND SUPPORT RATING FLOOR (ALL BANKS)

The Support Ratings and Support Rating Floors reflect Fitch's view that although external extraordinary sovereign support is possible it cannot be relied upon. Senior creditors can no longer expect to receive full extraordinary support from the sovereign in the event that the bank becomes non-viable.

The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for the resolution of banks that requires senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

DEPOSIT RATINGS (ALL BANKS)

The banks' Long-Term Deposit Ratings have been downgraded by one notch but remain one notch above their respective Long-Term IDRs to reflect existing protection from more junior bank resolution debt and equity buffers. The one-notch uplift also reflects our expectation that the banks will maintain these buffers, given the need to comply with MREL.

Fitch has assigned 'F3' Short-Term Deposit Ratings to IntesaSP and UniCredit, the baseline option for a 'BBB' Long-Term Deposit Rating because their funding and liquidity scores are not high enough to achieve the higher equivalent short-term rating option possible at a 'BBB' level. Fitch also assigned a 'F3' Short-Term Deposit Rating to UBI in line with its 'BBB-' Long-Term Deposit Rating.

Mediobanca's Short-Term Deposit Ratings has been downgraded to 'F3', the baseline option for a 'BBB' Long-Term Deposit Rating, from the previous 'F2' because its funding and liquidity score is not high enough to achieve the higher equivalent Short-Term rating option possible at a 'BBB' level.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES (ALL BANKS)

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

Tier 2 subordinated debt is rated two notches below the VR for loss severity to reflect poor recovery prospects. No notching is applied for incremental non-performance risk because writedown of the notes will only occur once the point of non-viability is reached and there is no coupon flexibility before non-viability.

UniCredit's and IntesaSP's Additional Tier 1 notes are rated four notches below the VR, comprising two notches for loss severity relative to senior unsecured creditors and two notches for incremental non-performance risk.

RATING SENSITIVITIES

INTESASP

Factors that could, individually or collectively, lead to positive rating action/upgrade:

For IntesaSP's IDRs, VR, DCR, deposit ratings, Tier 2 debt, AT1 debt and senior debt ratings issued by it, and by Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Bank Luxembourg, S.A. and Intesa Funding LLC, to be upgraded, Italy would need to be upgraded and pressures on risk appetite, asset quality and earnings that have arisen from the economic fallout from the coronavirus pandemic would need to ease. An upgrade of IntesaSP's ratings would lead to an upgrade of IMI's IDRs and debt ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

IntesaSP's ratings are likely to be downgraded if Italy's sovereign rating is downgraded. The ratings are also sensitive to the depth and duration of the economic crisis caused by the pandemic and its impact on IntesaSP's financial profile, and could be downgraded if IntesaSP's CET1 ratio falls below 13% without prospect of recovering in the short term. This weakening of capitalisation could be caused by a delay to the recovery of Italy's economy, which could result in a prolonged damage to the bank's asset quality, earnings and ultimately capital.

As IMI's ratings are driven by expected support from IntesaSP, they would be downgraded if IntesaSP's equivalent ratings are downgraded or if IntesaSP's propensity to support IMI weakens.

UNICREDIT

Factors that could, individually or collectively, lead to positive rating action/upgrade:

For UniCredit's IDRs, VR, DCR, deposit ratings, T2 debt, AT1 debt and senior debt ratings issued by the bank, and by its funding vehicles, UniCredit Bank (Ireland) plc, and UniCredit International Bank Luxembourg SA, to be upgraded, Italy would need to be upgraded and pressures on asset quality, earnings and capital that have arisen from the economic fallout from the coronavirus pandemic would need to ease.

The senior preferred and SNP debt ratings could be upgraded by one notch if UniCredit is expected to meet its resolution buffer requirements with SNP and more junior debt instruments.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

UniCredit's ratings are likely to be downgraded if Italy's sovereign rating is downgraded.

The ratings are also sensitive to the depth and duration of the economic crisis caused by the pandemic and its impact on the bank's financial profile and could be downgraded if UniCredit's CET1 ratio falls below 13% without prospect of recovering in the short term. This weakening of capitalisation could be caused by a delay to the recovery of Italy's economy, which could result in a prolonged damage to the bank's asset quality, earnings and ultimately capital.

MEDIOBANCA

Factors that could, individually or collectively, lead to positive rating action/upgrade:

For Mediobanca's IDRs, VR, DCR, deposit ratings, Tier 2 debt and senior debt ratings issued by it, and by Mediobanca International (Luxembourg) SA, to be upgraded, Italy would need to be upgraded and pressures on risk appetite, asset quality and profitability that have arisen from the economic fallout from the coronavirus pandemic would need to ease.

The senior preferred and SNP debt ratings could be upgraded by one notch if Mediobanca is expected to meet its resolution buffer requirements with SNP and more junior instruments.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Mediobanca's largely domestic focus means its ratings are sensitive to a downgrade of Italy's sovereign rating. The ratings are also sensitive to the depth and duration of the economic crisis caused by the pandemic and its impact on the bank's financial profile and could be downgraded if Mediobanca's CET1 ratio falls below 13% without prospect of recovering in the short term. This weakening of capitalisation could be caused by a delay in the recovery of Italy's economy, which could result in a prolonged damage to the bank's asset quality, earnings and ultimately capital.

UBI

Factors that could, individually or collectively, lead to positive rating action/upgrade:

UBI's IDRs could be upgraded in line with IntesaSP's and the bank's Support Rating to '2' if the acquisition proceeds and if we conclude that UBI will become sufficiently integrated so that its default would pose significant reputation risk to IntesaSP and damage IntesaSP's domestic franchise, given they both operate in the same country and serve the same target clientele. It is likely that regulators would favor parental support in the event an acquisition goes ahead. Equalisation with IntesaSP's IDRs is likely to be contingent on IntesaSP acquiring at least two-thirds of UBI Banca's share capital as this will give IntesaSP strong control over UBI, reduce impediments to integration and make extraordinary support more likely, in Fitch's view.

UBI's IDRs could also be upgraded if the transaction benefits the standalone risk profile of the bank and results in its VR being upgraded either on acquisition by IntesaSP or on deeper integration or legal merger. Depending on the level of integration (which we believe hinges on whether or not IntesaSP manages to acquire more than two-thirds of UBI's share capital), UBI's company profile could benefit from being part of a group with a stronger franchise, higher product diversification and larger scale, while its risk appetite and management and strategy could become more aligned with the higher-rated IntesaSP.

UBI's financial profile has the capacity to improve following the acquisition, given Intesa's stated intention to sell a non-performing loan portfolio of around gross EUR4 billion by 2021. However, we acknowledge that executing this transaction might be more difficult given the deteriorated economic environment and greater market volatility. Cost synergies should also contribute to more sustainable profitability with ultimate benefits on UBI's ability to generate capital. UBI should also see funding benefit, given Intesa's established market access and dominant domestic deposit franchise.

In the absence of a transaction with Intesa, an upgrade of UBI's rating would require evidence of the bank's ability to defend its asset quality and capitalisation, and restore its profitability alongside a recovery in the economy.

The senior preferred and SNP debt ratings could be upgraded by one notch if UBI is, in the future, expected to meet its resolution buffer requirements with SNP and more junior instruments.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

If the exchange offer from IntesaSP is unlikely to proceed, UBI's ratings would likely be removed from RWP and be primarily sensitive to the depth and duration of the economic crisis caused by the pandemic and its impact on the bank's financial profile. The ratings could be downgraded if an economic recovery in Italy is delayed, resulting in permanent damage to the bank's asset quality, earnings, capital or funding instability.

SUPPORT RATING AND SUPPORT RATING FLOOR (ALL BANKS)

An upgrade of the Support Ratings and upward revision of the Support Rating Floors of IntesaSP, UniCredit, Mediobanca and UBI would be contingent on a positive change in the sovereign's propensity to support the banks. In Fitch's view, this is highly unlikely, although not impossible.

UBI's Support Rating could be upgraded if the exchange offer from Intesa proceeds, most likely to '2'. We would then withdraw its Support Rating Floor as the most likely source of support would be institutional from Intesa.

DEPOSIT RATINGS (ALL BANKS)

The deposit ratings are primarily sensitive to changes in the banks' IDRs. The long-term deposit ratings of IntesaSP, UniCredit, Mediobanca and UBI are also sensitive to a reduction in the size of the senior and junior debt buffers, although we view this unlikely in light of the banks' current and future MREL requirements.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES (ALL BANKS)

The subordinated debt's and hybrid securities' ratings are primarily sensitive to changes in the banks' VRs, from which they are notched. 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.

UniCredit's and IntesaSP's AT1 debt could also be downgraded if we expect capital buffers over the point at which maximum distributable amount (MDA) restrictions can be triggered to fall below 100bp.

ESG CONSIDERATIONS

Unless otherwise stated the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or to the way in which they are being managed by the entities.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING
The principal sources of information used in the analysis are described in the Applicable Criteria.

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

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
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