

Rating Action: Moody's takes rating actions on five Italian banks following update to banks methodology

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Senior unsecured ratings of two banks upgraded, junior senior ratings of two bank upgraded, junior senior ratings of one bank downgraded

Paris, July 13, 2021 -- Moody's Investors Service (Moody's) has today taken rating actions on five Italian banks. The rating actions were driven by revisions to Moody's Advanced Loss Given Failure (Advanced LGF) framework, which is applied to banks operating in jurisdictions with Operation Resolution Regimes, following the publication of Moody's updated Banks Methodology on 9 July 2021. This methodology is available at this link: https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1269625.

Please click on this link https://www.moody's.com/viewresearchdoc.aspx?docid=PBC_ARFTL448978 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

All other Italian banks were unaffected by today's rating action and the update of the Banks methodology.

RATINGS RATIONALE

Today's rating actions on five Italian banks were driven by revisions to the Advanced Loss Given Failure framework within Moody's updated Banks methodology.

In particular, ratings were impacted by revised notching guidance table thresholds at lower levels of subordination and volume in the liability structure, which have been applied to all Italian banks. For Italian banks with overseas subsidiaries the rating actions also reflect Moody's view that group-wide resolutions coordinated in a unified manner will be more common following the requirement to issue internal loss absorbing capital (ILAC), which could lead to a transfer of losses from subsidiaries to parents, at the point of failure. For banks that are subsidiaries of international parents and subject to ILAC requirements the rating actions reflect the required and expected issuance of such instruments. [The update further includes the consideration of all Additional Tier 1 (AT1) securities issued by banks domiciled in Italy in Moody's Advanced LGF framework, eliminating the previous analytical distinction between those high trigger instruments that were deemed to provide equity-like absorption of losses before the point of failure and other AT1 securities].

RATINGS RATIONALE FOR INDIVIDUAL BANKS

- UniCredit S.p.A. (UniCredit)

Moody's downgraded the junior senior program ratings and junior senior debt ratings of UniCredit to (P)Baa3 and Baa3 from (P)Baa2 and Baa2, respectively.

The action reflects Moody's expectation that UniCredit S.p.A. will be resolved in a unified manner alongside its main overseas subsidiaries in accordance with the adoption of the single point of entry resolution strategy. The rating agency assess that issuance of loss absorbing instruments from the group's subsidiaries domiciled in the European Union to the parent bank will result in the transfer of losses to UniCredit S.p.A. in a resolution scenario. The inclusion of the Tangible Banking Assets of the subsidiaries within Moody's Advanced LGF analysis results in no uplift from the bank's BCA from previously one notch, which is reflective of higher losses that junior senior debt will incur following a failure.

- Intesa Sanpaolo S.p.A. (Intesa Sanpaolo)

Intesa Sanpaolo's junior senior unsecured debt ratings were upgraded by one notch to Baa3 from Ba1.

Under Moody's Advanced LGF analysis they are rated at the level of the bank's BCA, which better captures the risk characteristics of this class of debt following the agency's revised view around the distribution of losses post failure.

Moody's also affirmed the subordinated programme ratings and subordinated debt ratings of Intesa Sanpaolo at (P)Ba1 and Ba1 respectively. Even though Moody's revised notching guidance table indicates the bank's subordinated debt ratings at the level of the BCA, a sustained level of subordination at the current level would be necessary to warrant an upgrade of the current ratings.

The rating actions also reflect Moody's expectation that Intesa Sanpaolo will be resolved in a unified manner alongside its main overseas subsidiaries in accordance with the adoption of the single point of entry resolution strategy. The rating agency assess that issuance of loss absorbing instruments from the group's subsidiaries domiciled in the European Union to the parent bank will result in the transfer of losses to Intesa Sanpaolo in case of failure. The inclusion of the Tangible Banking Assets of the subsidiaries within Moody's Advanced Loss Given Failure analysis has no impact on Intesa Sanpaolo's ratings despite the greater volume of losses the bank's liabilities will be expected to absorb following a failure.

- Banco BPM S.p.A. (Banco BPM)

Moody's upgraded the long-term junior senior unsecured rating of Banco BPM to Ba3 from B1.

Banco BPM's long-term junior senior rating was upgraded by one notch to Ba3 from B1, as under Moody's Advanced LGF analysis it is now rated in line with the BCA, which better captures the risk characteristics of this class of debt following the agency's revised view around the distribution of losses post failure.

Moody's also affirmed the senior unsecured debt ratings of Banco BPM at Ba2. The affirmation follows Moody's revised notching guidance table that maintains the bank's senior unsecured debt ratings at one notch above the BCA; however the one-notch uplift from the BCA is no longer based on Moody's forward-looking expectation of material issuance of bail-in-able debt but rather on the bank's current metrics.

- Banca Nazionale Del Lavoro S.p.A. (BNL)

Moody's upgraded the long-term senior unsecured debt rating of BNL to Baa2 from Baa3.

BNL's long-term senior unsecured debt and issuer ratings were upgraded by one notch to Baa2 from Baa3, as under Moody's Advanced LGF analysis they are now rated in line with the Adjusted BCA, which better captures the risk characteristics of this class of debt following the agency's revised view around the distribution of losses post failure.

- Credito Valtellinese S.p.A. (Creval)

Moody's upgraded the long-term senior unsecured debt rating of Creval to Baa1 from Baa2.

Creval's long-term senior unsecured debt rating was upgraded by one notch to Baa1 from Baa2, as under Moody's Advanced LGF analysis it is now rated in line with the Adjusted BCA, which better captures the risk characteristics of this class of debt following the agency's revised view around the distribution of losses post failure.

Creval's long-term senior unsecured debt rating benefits from one notch of uplift stemming from our Advanced Loss Given Failure assessment (from -1 previously) owing to the inclusion of Creval liabilities in the resolution perimeter of Credit Agricole Italia following the acquisition in June 2021. Please see our rating action on 3 June 2021 (https://www.moodys.com/research/--PR_447616). Creval's ratings and assessments are now aligned with those of CA Italia, reflecting Moody's expectation that the two banks will be merged and as such Creval will cease to exist as a separate legal entity by early 2022.

OUTLOOK

The outlook on the senior unsecured debt ratings of BNL and Banco BPM is stable.

The rating outlooks of the other banks affected by today's rating action remain unchanged.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The affected long-term deposit ratings, senior unsecured debt ratings, issuer ratings, CRRs and CR Assessments could be upgraded following an improvement in the standalone creditworthiness of the banks, or an upgrade of the relevant country sovereign debt rating.

The long-term deposit, senior unsecured debt ratings, and issuer ratings could also be upgraded following a

significant increase in the stock of more junior bail-in-able liabilities.

The affected ratings and assessments could be downgraded following a substantial deterioration in the standalone creditworthiness of the banks or following a significant reduction in the stock of bail-in-able liabilities.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL448978 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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- Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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