

Scope affirms the BBB rating on Istituto Bancario del Lavoro Spa with a Stable Outlook

The Stable Outlook reflects the bank's business model resilience in economic downturns and solid profitability.

Rating action

Scope Ratings GmbH (Scope) has today affirmed Istituto Bancario del Lavoro SpA (IBL) BBB issuer rating and S-2 short-term debt rating, with a Stable Outlook.

Rating rationale

The rating is driven by IBL's leading position in Italy as provider of payroll and pension-deducted loans (PDLs), low-risk and high-margin personal loans with a long history in Italy.

The Covid-19 induced lockdowns had a negligible impact on IBL's credit risk profile. Its solid profitability and regulatory capital position, reinforced by lower risk-weights for PDLs under CRDV, provide for strong lines of defence.

Recently, a slight erosion of IBL's market share is due to rising competitive and pricing pressure. However, IBL has been so far able to offset falling margins with lower funding costs, including TLTROs, which had a positive effect on net interest margins.

Exposure to Italian government bonds is material and mainly financed through short-term repos. Given the portfolio is almost entirely classified as held-to-maturity (HTC) we do not see an immediate risk, however, IBL's liquidity could come under stress from a rise in haircuts in a stress scenario.

IBL's main sources of funds are the ECB and customer deposits, complemented by interbank funding, which is significant but decreasing in importance, and securitisations. IBL has a solid deposit base, and the bank plans to further exploit its branch capabilities by stepping up its retail accounts offering. Securitisations were historically retained and used as collateral for repo operations with the Bank of Italy. ABACO eligibility, which allows loan portfolios to be posted directly as collateral with the Bank of Italy, has reduced IBL's reliance on this source of funding.

Recent M&A activity by IBL highlights a renewed focus to diversify outside the core business into the non-performing loans market (NPLs). However, we consider IBL's approach to NPL purchases to be cautious and well-managed.

Under Scope's bank rating methodology, the 'long-term sustainability' assessment (ESG factor) captures how

relevant environmental, social and governance (ESG) factors as well as an issuer's preparedness for digital transition (D) may impact creditworthiness and the ability to repay debt. As part of the first-time implementation of this methodology, Scope has assigned an assessment of 'developing' to IBL. The long-term sustainability assessment acknowledges IBL strong commitment to digitalisation, however it also highlights key person risk regarding the bank's CEO, who has been in office since 1998 and has a significant shareholding in the bank through the holding Company Delta 6.

Outlook - rating-change drivers

The rating Outlook is Stable and reflects Scope's opinion that currently risks to the rating level are balanced.

Positive rating-change drivers:

More diversified funding mix: we would see positively a stronger deposit base, possibly complemented by unsecured funding, as well as a lasting reduction in repo funding related to the sovereign debt portfolio as this source comes with liquidity risks.

A material reduction in the large carry trade in government securities: while providing for trading income the sizeable portfolio also constitutes a concentration risk against which no regulatory capital is retained.

Negative rating-change drivers:

A less than balanced approach to diversification might result in an increase in risk. Given pace and size of the diversification effort outside the core business and into NPLs, the risk is minor.

Overview of rating components

Operating environment: Supportive

Business model: Consistent

Initial mapping refinement: Low

Initial mapping: bbb-/bbb

Long-term sustainability: Developing

Adjusted anchor: bbb-

Earnings capacity and risk exposures: Supportive

Financial viability management: Adequate

Additional rating factors: Neutral factor

Standalone assessment: bbb

External support: No additional uplift

Issuer rating: BBB

One or more key drivers for the credit rating action are considered ESG factors.

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed

Methodology

The methodology used for these Credit Ratings and/or Outlooks, (Bank Rating Methodology, 26 January 2021), is available on <https://www.scooperatings.com/#!methodology/list>.

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scooperatings.com/#!governance-and-policies/rating-scale>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://www.scooperatings.com/#governance-and-policies/regulatory-ESMA>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerp.esma.europa.eu/cerp-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scooperatings.com/#governance-and-policies/rating-scale>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://www.scooperatings.com/#!methodology/list>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: the Rated Entity, public domain and Scope Ratings' internal sources.

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Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and/or Outlooks and the principal grounds on which the Credit Ratings and/or Outlooks are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and/or Outlooks are UK-endorsed.

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The issuer Credit Ratings/Outlook was first released by Scope Ratings on 12 March 2018. The Credit Ratings/Outlooks were last updated on 21 July 2020.

The short-term Credit Rating/Outlook was first released by Scope Ratings on 13 November 2020.

Potential conflicts

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