



Insight beyond the rating.

Date of Release: July 26, 2018

DBRS Assigns First-Time BBB (low) / R-2 (middle) Ratings to Iccrea Banca, Negative Trend

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings Limited (DBRS) has assigned first-time ratings to Iccrea Banca SpA (Iccrea or the Bank). These ratings include a Long-Term Issuer Rating of BBB (low) and a Short-Term Issuer Rating of R-2 (middle). The trend on all ratings is Negative. Concurrently, DBRS assigned an Intrinsic Assessment (IA) to the Bank of BBB (low) and a support assessment of SA3. A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

The Intrinsic Assessment of BBB (low) reflects the Bank's important role as the largest central institution for the Italian cooperative banking system, as well as its adequate funding and capitalisation. It also takes into account the Bank's modest profitability and efficiency levels as well as the large stock of non-performing loans (NPLs). The negative trend reflects the challenges in reducing the stock of NPLs and improving profitability as well as the execution risks linked to the transformation of Iccrea Banca in the context of a new cooperative banking group which is likely to take place by the first quarter of 2019. Following the reform passed by the Italian parliament in 2016, Iccrea is expected to become the holding company of a new banking group comprising over 140 small local cooperative banks. A successful implementation and integration of the new structure would strengthen Iccrea's influence within the group, as well as provide potential for synergies and improved market access. The new structure should also contribute to enhance the financial stability of the cooperative sector. DBRS will assess the structure of the new cooperative banking group and its implications on Iccrea's franchise, financial strength and ability to reduce its NPL stock.

The support assessment at SA3 implies no expectation of systemic support.

RATING DRIVERS

Positive pressure on the ratings is unlikely, given the negative trend. However, a significant improvement in asset quality and profitability could lead to a change in the trend to Stable. Should the Bank be unable to materially reduce the stock of NPLs, or improve profitability, then a downgrade of the ratings is likely. A significant deterioration in the capital position could also contribute to negative

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings México, Institución Calificadora de Valores S.A. de C.V. (Mexico)(CRA, NRSRO affiliate, DRO affiliate). Please note that DBRS Ratings Limited was registered as an NRSRO affiliate on July 14, 2017. For more information on regulatory registrations, recognitions and approvals, please see: <http://www.dbrs.com/research/225752/highlights.pdf>.

© 2018, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings and other types of credit opinions issued by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <http://www.dbrs.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE



rating implications.

RATING RATIONALE

Icecrea is the largest central institution for the Italian cooperative banks, known as Banche di Credito Cooperativo (BCC). Icecrea plays a key role as the provider of funding and treasury services to approximately 300 BCCs. Icecrea provides access for the BCCs to ECB funds and is the recipient of the system's excess liquidity. The Bank also operates the payment system of the BCC sector and supports BCC's costumers with corporate finance, leasing and factoring as well as bancassurance product and services, mainly via its subsidiary Icecrea Bancaimpresa.

In 2017, Icecrea posted net income of EUR 29 million. In recent years Icecrea's profitability has been generally modest, reflecting weaker net interest income, modest revenue diversification and efficiency levels as well as the high cost of risk. Revenues mainly comprise net interest income from corporate lending, which in recent years has been constrained by the low interest rate environment and muted loan volumes, and from sovereign bonds. More recently, the Bank has made progress in expanding its fee income from the distribution of asset management and bancassurance products and payment system activities. The Bank's efficiency remains modest, with a cost-to-income ratio of 64% in 2017. Operating expenses are reducing slightly, mainly due to a simplification of its operating structure. The total cost of risk remains elevated reflecting deteriorating economic conditions for Italian SMEs, which constitute a significant portion of Icecrea's loan book.

Icecrea's risk profile reflects a large stock of NPLs. The Bank's customer lending book is mainly comprised of loans to the corporate sector, particularly SMEs, channeled through the network of cooperative banks. This portfolio has not performed well in recent years, and at end-2017 Icecrea reported a stock of NPLs of EUR 2.5 billion, corresponding to approximately 19% of the gross loan book (or 16% including repos). On a net basis, taking into account a cash coverage of 47%, the net NPL ratio stood at 11% at end-2017, in line with similarly rated Italian peers. The Bank's asset quality is highly collateralised by real estate guarantees (85% of net NPLs).

The Bank is also exposed to market risk arising from its large exposure to sovereign bonds, which at end-2017 stood at EUR 2.9 billion, or 1.5x the Bank's CET1 capital. This exposure reflects part of the activities with cooperative banks, to which Icecrea provides collateralised lending in exchange for securities eligible for refinancing operations with the ECB or other institutional counterparties.

The Bank has a stable funding position, underpinned by its role as a central institution for the cooperative banking sector. The Bank's funds mainly comprise ECB TLTRO funds and repos with



Cassa di Compensazione e Garanzia, and deposits from BCCs, which have large retail deposit bases and place their excess funding with Iccrea. At end-2017, Iccrea reported a Basel III liquidity coverage ratio (LCR) of 197% and a net stable funding ratio (NSFR) of 100%.

At end-2017, Iccrea reported a CET1 ratio of 12.12% and a total capital ratio (phased-in) of 13.23%. These provide an adequate cushion over the minimum CET1 ratio of 7.25% and total capital ratio of 10.75% set for 2017 by the European Central Bank under the SREP process. Nonetheless, the Bank's capital position remains vulnerable, given the large stock of unreserved NPLs, accounting for 86% of CET1 at December 2017, and modest profitability.

Iccrea is expected to become the parent company of a new cooperative banking group, following the reform passed by the Italian parliament in 2016. The new group is expected to receive formal approval by the supervisory authorities and will require approval from the shareholders' meetings of approximately 140 cooperative banks which are expected to join the new group. Iccrea will assume direction and coordination of the BCC members through a cohesion agreement. Governance, control functions, risk management and strategic planning will be centralised at the parent company level. Nonetheless each BCC will keep its banking license and retain a level of operating autonomy that is proportional to its level of risk based on an early warning system. Furthermore, the group's financial stability will benefit from a cross-guarantee scheme. If successfully implemented, the new group would potentially enhance Iccrea's franchise and business profile, as well as create potential for synergies and improved market access. Nonetheless, the implementation of the new structure carries execution risk given the complexity of the structure and large number of the BCC members.

The Grid Summary Grades for Iccrea Banca SpA are as follows: Franchise Strength – Good / Moderate; Earnings – Moderate; Risk Profile – Moderate / Weak; Funding & Liquidity – Good/Moderate; Capitalisation – Moderate.

Notes:

All figures are in Euros unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (July 2018). This can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include company reports, SNL Financial and the Ministry of Economy and Finance (MEF). DBRS considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings México, Institución Calificadora de Valores S.A. de C.V. (Mexico)(CRA, NRSRO affiliate, DRO affiliate). Please note that DBRS Ratings Limited was registered as an NRSRO affiliate on July 14, 2017. For more information on regulatory registrations, recognitions and approvals, please see: <http://www.dbrs.com/research/225752/highlights.pdf>.

© 2018, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings and other types of credit opinions issued by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <http://www.dbrs.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE



This rating concerns a newly rated issuer. This is the first DBRS rating on this issuer.

DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period. DBRS's outlooks and ratings are under regular surveillance.

For further information on DBRS historical default rates published by the European Securities and Markets Authority ("ESMA") in a central repository, see:
<http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

Ratings assigned by DBRS Ratings Limited are subject to EU and US regulations only.

Lead Analyst: Nicola De Caro, Senior Vice President – Global FIG
Rating Committee Chair: Ross Abercromby, Managing Director - Global FIG
Initial Rating Date: July 26, 2018
Most Recent Rating Update: Not Applicable as no last rating date

DBRS Ratings Limited
20 Fenchurch Street
31st Floor
London
EC3M 3BY
United Kingdom
Registered in England and Wales: No. 7139960

Information regarding DBRS ratings, including definitions, policies and methodologies, is available on www.dbrs.com.

DBRS rating definitions and the terms of use of such ratings are available at www.dbrs.com

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.



Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Iccrea Banca SpA	Long-Term Issuer Rating	New Rating	BBB (low)	Neg	Jul 26, 2018
Iccrea Banca SpA	Long-Term Senior Debt	New Rating	BBB (low)	Neg	Jul 26, 2018
Iccrea Banca SpA	Long-Term Deposits	New Rating	BBB (low)	Neg	Jul 26, 2018
Iccrea Banca SpA	Short-Term Issuer Rating	New Rating	R-2 (middle)	Neg	Jul 26, 2018
Iccrea Banca SpA	Short-Term Debt	New Rating	R-2 (middle)	Neg	Jul 26, 2018
Iccrea Banca SpA	Short-Term Deposits	New Rating	R-2 (middle)	Neg	Jul 26, 2018

Nicola De Caro
Senior Vice President - Global FIG
+44 20 7855 6632
ndecaro@dbrs.com

Mario Carrara
Assistant Vice President - Global FIG
+44 20 7855 6648
MCarrara@dbrs.com

Ross Abercromby
Managing Director - Global FIG
+44 20 7855 6657
raberromby@dbrs.com

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE [DISCLAIMERS AND LIMITATIONS](#). ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON [WWW.DBRS.COM](http://www.dbrs.com).

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings México, Institución Calificadora de Valores S.A. de C.V. (Mexico)(CRA, NRSRO affiliate, DRO affiliate). Please note that DBRS Ratings Limited was registered as an NRSRO affiliate on July 14, 2017. For more information on regulatory registrations, recognitions and approvals, please see: <http://www.dbrs.com/research/225752/highlights.pdf>.

© 2018, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings and other types of credit opinions issued by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <http://www.dbrs.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE