# IBL Banca S.p.A.
# Issuer Rating Report

STABLE
BBB

## Overview

Scope Ratings has assigned an issuer rating of BBB to IBL Banca S.p.A., with Stable Outlook. The rating was affirmed on 12 July 2019, when the Outlook was changed to Stable from Negative.

## Highlights

- The rating is based on the low-risk business model of IBL, a leader in the Italian market for payroll and pension deducted loans (PDLs), which is a high-margin, low-risk personal loan product with a long history in Italy. These loans have a complex structure, which involve several players and a long origination process. IBL seems to have mastered the vertical value chain entirely, evidenced by the bank's negligible credit-loss levels and high profitability across the credit cycle.
- The ratings also account for the large exposure to Italian government bonds, mostly financed via short-term repos. This represents a large risk concentration.
- Aside from repo funding for the government bond portfolio, IBL funds itself through deposits and securitisations of its loan book, all of which have been retained and used as collateral for repo operations.
- IBL's capital position is adequate, despite the high regulatory risk-weighting of PDLs.
- We also highlight the key person risk regarding Mario Giordano, the bank's CEO since 1998.

## Rating drivers (summary)

**The rating drivers, in decreasing order of importance in the rating assignment, are:**

- Market leader in Italian payroll and pension deductible loans
- Very low asset risk due to the intrinsic characteristics of the products
- Strategic targeting of market share consolidation and business diversification
- Very strong financial fundamentals, including capital, asset quality and profitability
- IBL's material exposure to Italian sovereign risk
- Reducing reliance on TLTRO, while keeping a tab on funding costs
- Owned and closely controlled by management

### Ratings & Outlook

| | |
|---|---|
| Issuer rating | BBB |
| Outlook | Stable |


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Bloomberg: SCOP

## Rating-change drivers

**Volatility in value of government bond portfolio.** Even a temporary decline in the value of government bonds could erode the group's liquidity: selling the bonds would translate into permanent losses, while financing the position could require higher margins.

**A material reduction in the large carry trade in government securities.** At over one-fourth of the balance sheet and over three times the CET1 capital base, the bank's Italian sovereign exposure represents a material risk against which almost no capital is retained. IBL's carry trade on government bonds, while adding to profitability, does not belong to its core business and expertise, in our view, and detracts from the credit.

**Material deviation in group strategy by entering into riskier segments.** A key strength of IBL is the focus on a high-margin, low-risk market niche. Any material strategic change through an aggressive targeting of riskier lending segments would be negative for the rating.

**Any indication of Italy's eurozone membership being at risk.** While we believe Italy's departure from the euro remains extremely unlikely, we note that some politicians, including in governing parties, have advocated for such an outcome. A change in a currency regime would not only be extremely difficult to execute, but also pose a material risk for financial institutions, with likely effects being a material disruption to activities and a risk of funding runs. Such an event could result in a multiple-notch downgrade for Italian banks, including IBL.

## Rating drivers (details)

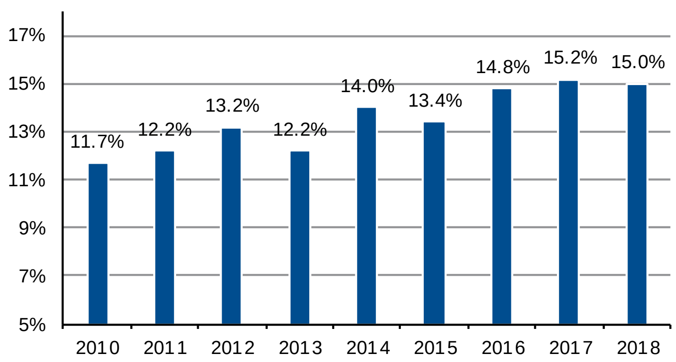
**Market leader in Italian payroll and pension deductible loans**

IBL Banca S.p.A. is the parent company of the IBL banking group, whose fully owned subsidiaries manage the services, real estate and the distribution of insurance for the entire group.

IBL is essentially a specialised lender that offers personal finance loans to Italian individuals, particularly Italian payroll or pension deductible loans (PDL), including 'cessioni del quinto dello stipendio' (CQS), 'cessioni del quinto della pensione' (CQP), 'deleghe di pagamento' (DP), and 'anticipo del trattamento di fine servizio' (TFS). The group is a market leader in Italy for PDLs, with a solid 15% market share in PDL origination.

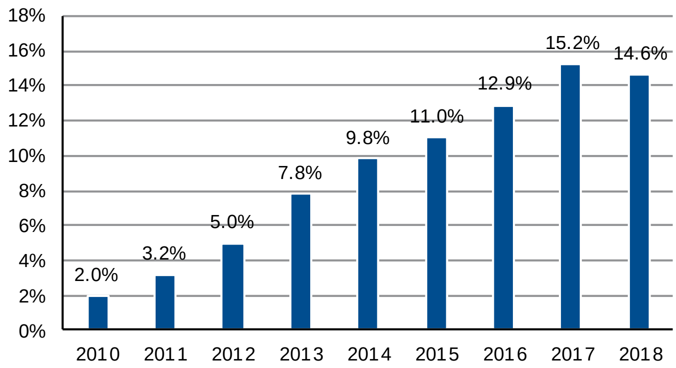
IBL also offers saving and insurance products, and payment cards.

**Figure 1: IBL's market share, new business**




Source: Company data, Assofin, Scope Ratings.

**Figure 2: IBL's market share, stock**




Source: Company data, Assofin, Scope Ratings.

As at the end of 2018, IBL's commercial model involves direct distribution through its own brand (53 branches), as well as indirect distribution via agents, promoters and bank distribution agreements.

Historically, IBL had operated an originate-to-distribute business model, largely due to limited financial resources. After obtaining a banking licence in 2004 and acquiring 30 Citifinancial branches in 2009, IBL started to accumulate deposits. Since 2012 it has undertaken several capital increases totalling EUR 62.5m. This has allowed the bank to transition to a more balance sheet-intensive model, also helped by readily available liquidity in wholesale markets and by the central bank. Today, the bank's business model aims to retain loans on the balance sheet, funding them through a mix of retail deposits and repo funding.

**Very low asset risk due to the intrinsic characteristics of the products**

CDQ and CDP loans are inherently low risk: historically rooted in post-unification Italy to help public-sector employees gain access to credit, CDQ was more formally regulated in 1950 by Italy's Law 180/1950 together with a wider reform of personal credit. However, it remained reserved for public-sector employees. In 2004, the product was extended to private-sector employees. In the process, several limitations were removed, such as a minimum job tenure, while more flexibility was provided on loan duration.

Today, the main characteristics of this product are:

- A target population of public- or private-sector employees and pensioners
- A duration of 24-120 months

- No maximum amount – it depends on the borrower's salary, with the average ticket at around EUR 20,000; for IBL, the maximum amount is EUR 75,000
- Monthly repayments – up to 20% of the salary or pension, including capital, interest and all fees
- Direct deductions from payroll
- Compulsory insurance for loss of employment and death
- Easy to obtain – no need for a specific purpose; credit decision made in the branch (or by an agent, or online); even available to individuals with poor credit records

These loans are essentially consumer credit products with an extremely low credit risk (the actual credit risk stems from the employer, or the insurance company in the event of job loss or the employee's death).

Also known as 'doppio quinto', a DP loan is similar to a CQS loan (only for employees) but can be up to 40% of the salary amount, in some cases even 50%, and requires the employer to accept a framework agreement (making it unavailable to some employees and to all pensioners). Government agencies typically have a framework agreement in place.

The small average tickets ensure the bank's portfolio is very granular, with no large concentrations at individual borrower level. However, concentration risk can be present in terms of the employer or the insurance counterparty.

**Strategic targeting of market share consolidation and business diversification**

At the beginning of 2019, IBL's board of directors approved the new strategic guidelines for 2019-21. Going forward, the bank aims to consolidate its position in the PDL market, targeting a market share of 18%-20%, while cautiously diversifying into other product segments. Among these, we highlight:

1) TFS loans, namely an anticipation of the severance pay to which public-sector employees are entitled at the end of their career.

2) Unsecured retail NPLs: in 2018, IBL and EuropaFactor founded Credit Factor, a joint venture with a focus on purchasing and managing small-ticket unsecured NPLs originated by banks. Given the low market price for these portfolios, IBL is aiming at maximising recovery values, including via restructurings.

3) Secured NPLs: In June 2019, IBL bought a 9.9% stake in Frontis NPL and entered a partnership for co-investment in secured NPL securitisations for up to EUR 50m.

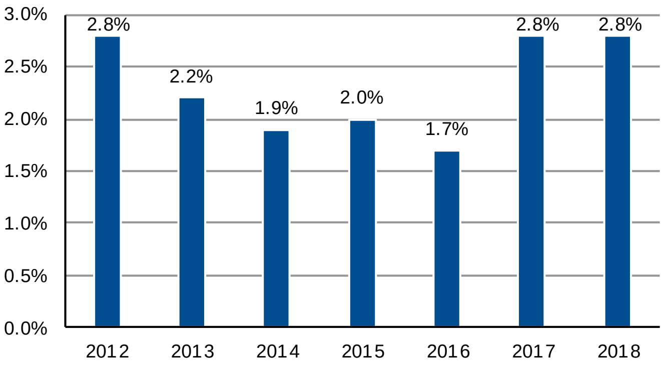
4) Bancassurance: IBL bought a 7.4% stake in Net Insurance, an key player in PDL insurance, and agreed to distribute their insurance products for individuals and households via its branch network.

Our understanding is that IBL's investment in potentially riskier markets will proceed at a highly controlled pace. We do not expect the group's business risk profile to shift materially in the next few years.

**Very strong financial fundamentals, including capital, asset quality and profitability**

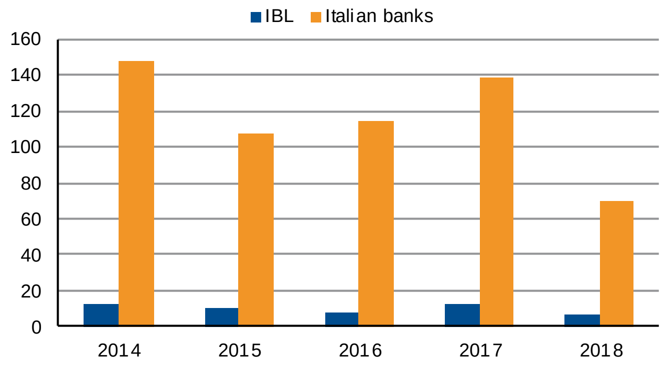
Due to the products' inherently low-risk nature, IBL's loan quality is very strong, both in absolute and relative terms. The NPE ratio is a low 2.8% as of YE 2018 and exclusively comprises past-due loans, with no loans classified as 'unlikely to pay' or 'bad'. The increase in 2017 was due to the acquisition of a EUR 300m portfolio of CQS and DP loans from Barclays. The good asset performance is reflected by the negligible cost of risk, 7 bps of loans in 2018.

**Figure 3: IBL's historical NPE ratio***




Source: Company data, Scope Ratings.

**Figure 4: IBL's cost of risk is much lower than that of Italian banks (bps)***




Source: Company data, SNL , Scope Ratings.

Profitability is solid. In 2018, return on assets was more than 1% and return of equity greater than 20%, better than the levels of most European banks. With a CET1 ratio on a transitional basis of 11.3% at the end of 2018, we see IBL as well capitalised. Indeed, despite their low risk, PDLs are assimilated to consumer credit products and carry a very high risk-weight of 75% under the standardised approach (used by IBL). However, with the approval of CRD5, the standard risk-weighting of PDLs will decline to 35%; bank capital should benefit by around EUR 70m, which IBL is likely to deploy towards financing asset growth.

IBL has also issued EUR 21m in AT1 notes and EUR 24.3m in Tier 2 notes, both close to 1% of RWAs.

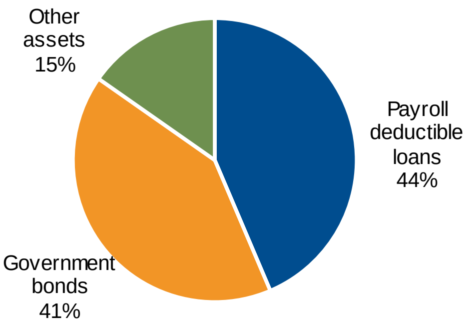
**IBL's material exposure to Italian sovereign risk**

While almost all loans are either CQS, CQP or DP, a large component of IBL's balance sheet comprises Italian government bonds, which boost profitability but represent a potential risk. Over the past five years, government bonds have been a significant source of carry trade income and trading gains for IBL, helping it to recapitalise and to finance business growth. As of Q4 2018, the Italian government bond portfolio stood at approx. EUR 2.4bn, which represents a year-on-year increase of EUR 1.8bn and is almost eight times the group's CET1 capital. We deem this level to be very high.

We still deem Italian government bonds to be safe assets (Scope rates Italian debt at BBB+, Stable Outlook), but we caution that such a large, concentrated exposure to any borrower would pose a non-negligible risk. Moreover, Italian sovereign bond yields have recently been volatile as a result of the government's ambivalent attitude with regards to previous fiscal commitments.

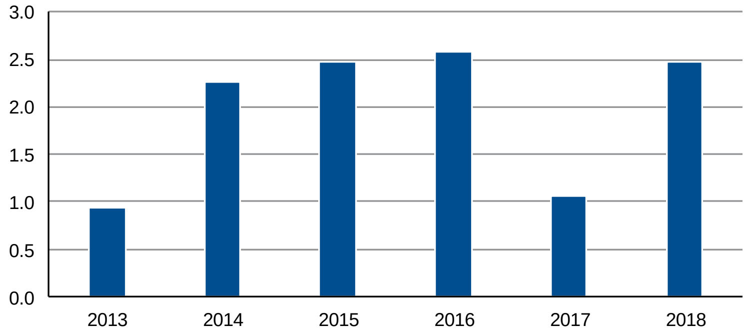
Most of IBL's Italian government bond portfolio (EUR 2.2bn) is held to collect (HTC), which means that volatility in their market value does not automatically impact accounting and prudential equity.

**Figure 5: Total asset split (2018)**




Source: Company data, Scope Ratings.

**Figure 6: Evolution of IBL's government bond exposure (EUR bn)**




Source: Company data, Scope Ratings.

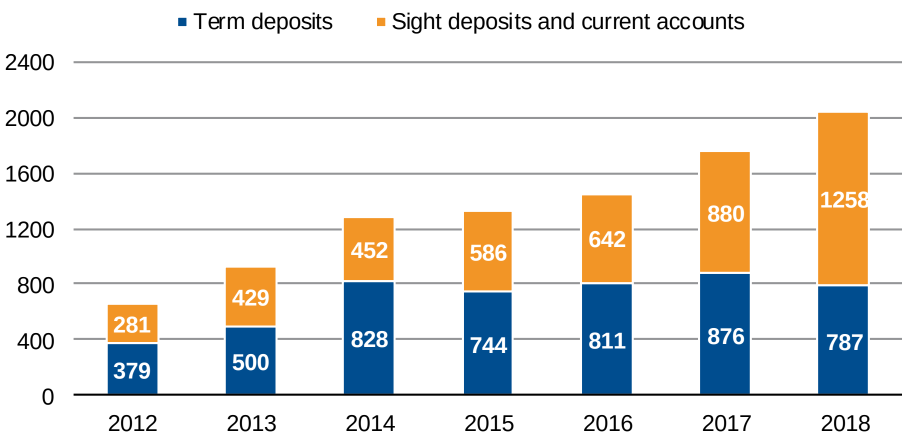
### Reducing reliance on TLTRO, while keeping a tab on funding costs

For the past few years, IBL's core business of payroll deductible loans (EUR 2.6bn in loans) had been funded primarily via deposits (both sight and term) and via the ECB's TLTRO funding (against collateral in the form of asset-backed securities backed by CQS loans). More recently, IBL used ABS tranches as collateral for private repos, as it had gradually repaid the TLTRO funds. At the end of 2018, IBL had EUR 59m of outstanding TLTRO funding, alongside EUR 250m of other ECB funding. (MRO and LTRO)

As of Q4 2018, deposits stood at EUR 2.04bn. To its customer base, IBL has consistently offered rates significantly above the market level, as the bank targets very affluent private customers and corporate clientele with a secondary account offering. However, the average cost of customer funding has sensibly decreased since 2012 and stood at 1.1% at the end of 2018. This is mainly due to a 43% increase in (cheaper) sight deposits, combined with a 10% decline in term deposits (Figure 7). In the current low interest rate environment, such rates have been popular with customers, with deposit volumes growing steadily over the last six years (+16% in 2018).

The government bond portfolio (EUR 2.48bn) is mainly funded via repos. These include bilateral repos with banking counterparts as well as repos on the MTS market. Repos are mostly executed at negative rates (around -0.40%), producing a small income for IBL.

**Figure 7: Retail deposits, historical evolution (EUR m)**




Source: Company data, Scope Ratings

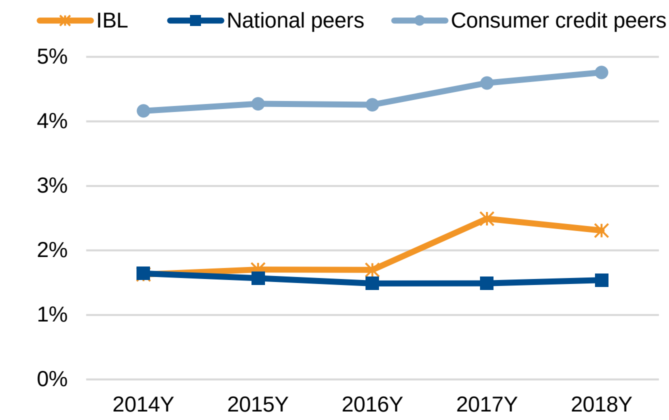
**Owned and closely controlled by management**

Mario Giordano, the bank's CEO since 1998 (at the time, it was called Istituto Finanziario del Lavoro), controls 50% of the shares through holding company Delta 6. Giordano has led the group through several transformation cycles, including the acquisition of a banking license in 2004 and the recent move from an 'originate to distribute' model to a balance sheet model. His partners, the D'Amelio family, control the other 50% through holding company Sant'anna srl and sit on the board of directors.

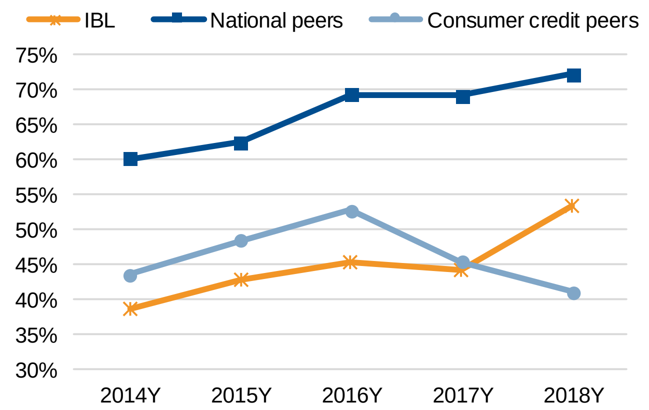
We believe Giordano represents a key person risk for the bank. His departure would add significant uncertainty in terms of both governance and strategy.

## I. Appendix: Peer comparison

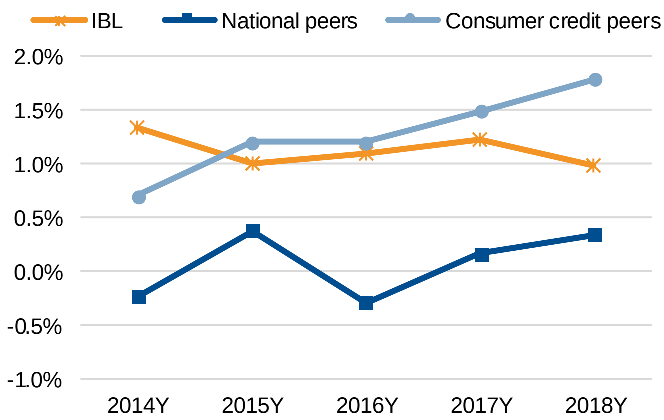
**Net interest margin (%)**



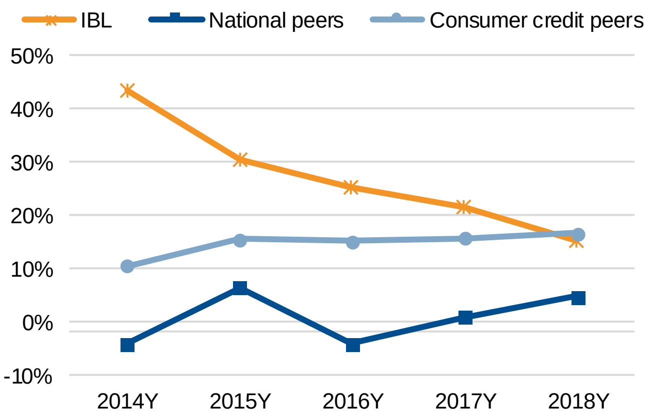

**Cost-income ratio (%)**



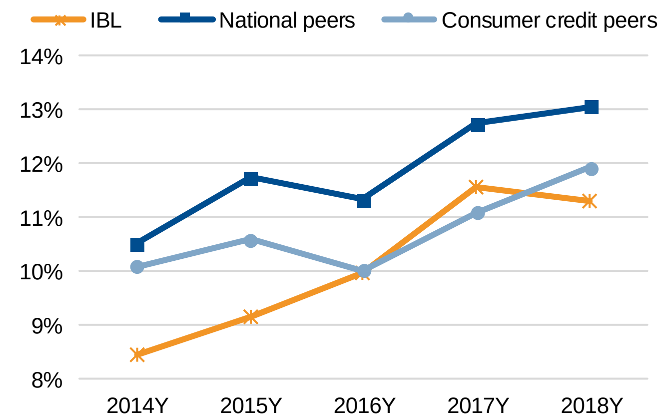

**ROAA (%)**



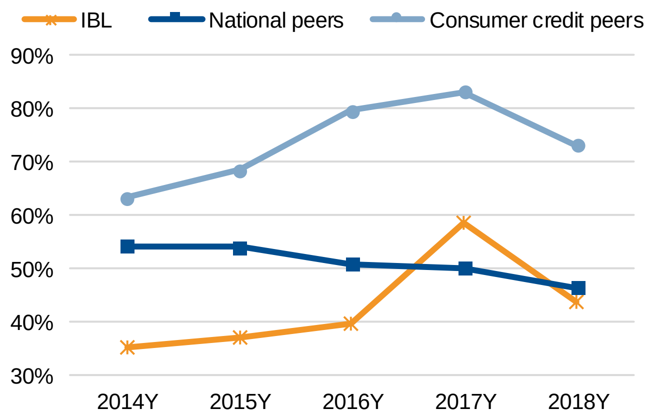

**Return on average equity (ROAE) (%)**




**CET1 ratio (%, transitional basis)**




**Asset risk intensity (RWAs % total assets)**




Source: SNL

National peers: Istituto Bancario del Lavoro, Unicredit, Intesa, Banca Monte dei Paschi, Banca Carige, Banca Popolare di Sondrio, Banco BPM; BPER Banca, Credito Emiliano, Credito Valtellinese, Mediobanca, UBI Banca.

Credit consumer peers: Agos Ducato SpA, BCC CreditoConsumo, Consel SpA, Creditis Servizi finanziari, Fiditalia SpA, Findomestic Banca, PrestiNuova, Prestitalia, Compass Banca.

## II. Appendix: Selected financial information

| | 2014Y | 2015Y | 2016Y | 2017Y | 2018Y |
|---|---|---|---|---|---|
| **Balance sheet summary (EUR m)** | | | | | |
| **Assets** | | | | | |
| Cash and interbank assets | 564 | 372 | 376 | 285 | 424 |
| Total securities | 2,315 | 2,508 | 2,619 | 495 | 81 |
| of which, derivatives | 36 | 28 | 32 | 17 | 22 |
| Net loans to customers | 1,618 | 2,031 | 2,316 | 3,180 | 5,243 |
| Other assets | 171 | 252 | 248 | 248 | 276 |
| **Total assets** | **4,668** | **5,162** | **5,559** | **4,207** | **6,023** |
| **Liabilities** | | | | | |
| Interbank liabilities | 857 | 1,100 | 1,534 | 1,008 | 1,527 |
| Senior debt | 0 | 1 | 1 | 1 | 1 |
| Derivatives | 41 | 28 | 45 | 26 | 54 |
| Deposits from customers | 3,459 | 3,619 | 3,545 | 2,654 | 3,914 |
| Subordinated debt | 59 | 65 | 60 | 60 | 60 |
| Other liabilities | 114 | 129 | 132 | 144 | 123 |
| **Total liabilities** | **4,530** | **4,942** | **5,316** | **3,892** | **5,678** |
| Ordinary equity | 138 | 220 | 242 | 315 | 345 |
| Equity hybrids | 0 | 0 | 0 | 0 | 0 |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| **Total liabilities and equity** | **4,668** | **5,162** | **5,559** | **4,207** | **6,023** |
| *Core tier 1/ common equity tier 1 capital* | 138 | 175 | 219 | 286 | 297 |
| **Income statement summary (EUR m)** | | | | | |
| Net interest income | 58 | 80 | 87 | 115 | 112 |
| Net fee & commission income | 33 | 31 | 30 | 14 | 7 |
| Net trading income | 37 | 25 | 48 | 36 | 34 |
| Other income | 0 | 0 | 1 | 1 | 3 |
| **Operating income** | **129** | **136** | **166** | **167** | **155** |
| Operating expenses | 50 | 58 | 75 | 74 | 83 |
| **Pre-provision income** | **79** | **78** | **91** | **94** | **72** |
| Credit and other financial impairments | 2 | 2 | 2 | 4 | -2 |
| Other impairments | 0 | 0 | 0 | 0 | 0 |
| Non-recurring items | NA | NA | NA | NA | NA |
| **Pre-tax profit** | **77** | **76** | **89** | **89** | **74** |
| Discontinued operations | 0 | 0 | 0 | 0 | 0 |
| Other after-tax Items | 0 | 0 | 0 | 0 | 0 |
| Income tax expense | 26 | 24 | 28 | 29 | 24 |
| Net profit attributable to minority interests | 0 | 0 | 0 | 0 | 0 |
| **Net profit attributable to parent** | **50** | **52** | **61** | **60** | **50** |

Source: SNL, Scope Ratings

## III. Appendix: Ratios

| | 2014Y | 2015Y | 2016Y | 2017Y | 2018Y |
|---|---|---|---|---|---|
| **Funding and liquidity** | | | | | |
| Net loans/ deposits (%) | 46.8% | 56.1% | 65.3% | 119.8% | 134.0% |
| Liquidity coverage ratio (%) | NA | 140.0% | NA | NA | NA |
| Net stable funding ratio (%) | NA | NA | NA | NA | NA |
| **Asset mix, quality and growth** | | | | | |
| Net loans/ assets (%) | 34.7% | 39.3% | 41.7% | 75.6% | 87.0% |
| Problem loans/ gross customer loans (%) | 2.2% | 1.9% | 1.9% | NA | 1.6% |
| Loan loss reserves/ problem loans (%) | 21.3% | 23.2% | 24.0% | NA | 26.9% |
| Net loan growth (%) | 30.6% | 25.5% | 14.0% | 37.3% | 64.9% |
| Problem loans/ tangible equity & reserves (%) | 24.6% | 17.0% | 17.9% | NA | 22.5% |
| Asset growth (%) | 61.4% | 10.6% | 7.7% | -24.3% | 43.2% |
| **Earnings and profitability** | | | | | |
| Net interest margin (%) | 1.6% | 1.7% | 1.7% | 2.5% | 2.3% |
| Net interest income/ average RWAs (%) | 4.1% | 4.5% | 4.2% | 4.9% | 4.4% |
| Net interest income/ operating income (%) | 45.3% | 58.8% | 52.3% | 69.1% | 72.2% |
| Net fees & commissions/ operating income (%) | 25.8% | 23.0% | 18.2% | 8.5% | 4.4% |
| Cost/ income ratio (%) | 38.7% | 42.8% | 45.1% | 44.0% | 53.4% |
| Operating expenses/ average RWAs (%) | 3.5% | 3.3% | 3.6% | 3.2% | 3.3% |
| Pre-impairment operating profit/ average RWAs (%) | 5.5% | 4.4% | 4.4% | 4.0% | 2.8% |
| Impairment on financial assets / pre-impairment income (%) | 0.1% | 0.0% | 0.0% | 0.1% | 0.0% |
| Loan loss provision/ average gross loans (%) | 0.1% | 0.1% | 0.1% | NA | NA |
| Pre-tax profit/ average RWAs (%) | 5.3% | 4.3% | 4.3% | 3.8% | 2.9% |
| Return on average assets (%) | 1.3% | 1.0% | 1.1% | 1.2% | 1.0% |
| Return on average RWAs (%) | 3.5% | 2.9% | 3.0% | 2.6% | 2.0% |
| Return on average equity (%) | 43.4% | 30.6% | 25.2% | 21.6% | 15.3% |
| **Capital and risk protection** | | | | | |
| Common equity tier 1 ratio (%, fully loaded) | NA | NA | NA | NA | NA |
| Common equity tier 1 ratio (%, transitional) | 8.4% | 9.1% | 10.0% | 11.6% | 11.3% |
| Tier 1 capital ratio (%, transitional) | 8.4% | 10.2% | 10.9% | 12.4% | 12.1% |
| Total capital ratio (%, transitional) | 8.8% | 13.1% | 12.8% | 13.8% | 13.0% |
| Leverage ratio (%) | NA | 3.8% | 4.4% | 7.3% | 5.1% |
| Asset risk intensity (RWAs/ total assets, %) | 35.1% | 37.1% | 39.6% | 58.7% | 43.7% |
| **Market indicators** | | | | | |
| Price/ book (x) | NA | NA | NA | NA | NA |
| Price/ tangible book (x) | NA | NA | NA | NA | NA |
| Dividend payout ratio (%) | NA | NA | NA | NA | NA |

Source: SNL, Scope Ratings

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