IBL Banca S.p.A.
Issuer Rating Report

SCOPE BBB STABLE

Scope's credit view (summary)

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

The Covid-19 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 Capital Requirements Directive V, provide a strong line of defence.

Recently, IBL's market share has eroded slightly due to rising competitive and pricing pressure. However, IBL has been able to offset falling margins so far with lower funding costs, including targeted long-term financing operations (TLTRO). This has had a positive effect on net interest margins.

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

IBL's main sources of funds are the ECB and customer deposits. These are 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 on diversifying outside the core business into the nonperforming loans market (NPLs). However, we consider IBL's approach to NPL purchases to be cautious and well managed.

Our long-term sustainability assessment acknowledges IBL's strong commitment to digitalisation. However, it also highlights key person risk regarding the bank's CEO, who has been at his post since 1998 and has a significant shareholding in the bank through holding company Delta 6.

Outlook

The **Outlook is Stable**, reflecting our opinion that risks to the rating level are balanced at this time.

Credit strengths

- Market leader in a low-risk segment
- Strong financial fundamentals (capital, asset quality, profitability)

Credit weaknesses

- High exposure to Italian bonds, posted as collateral in repo operations

Positive rating-change drivers

- More diversified funding base
- A material reduction in the large carry trade in government securities

Negative rating-change drivers

- A less than balanced approach to diversification might result in increased risk

Ratings & Outlook

Issuer rating	BBB
Outlook	Stable
Short-term debt rating	S-2
Short-term debt rating Outlook	Stable

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Bloomberg: RESP SCOP

Issuer profile and product specificities

IBL was founded in 1927. It was transformed into a bank in 2004 and into a group in 2008.

IBL Banca S.p.A. is the parent company of the IBL banking group, which had assets of EUR 7bn as of YE 2020. Its fully owned subsidiaries are IBL Servicing S.p.A (CQS recovery), IBL Real Estate S.r.l. and IBL Assicura S.r.l (insurance). Banca Capasso Antonio S.p.A (EUR 208m in assets at YE 2020) and Banca di Sconto e Conti Correnti di Santa Maria Capua Vetere S.p.A. (EUR 91m) were acquired in 2021. IBL also holds a 70% stake in IBL Family, a joint venture with real estate agent network Tecnocasa. IBL Family originates PDL loans in conjunction with home-buying processes.

IBL is essentially a specialised lender that offers personal loans, particularly Italian PDLs, to Italian individuals. Such loans include 'cessioni del quinto dello stipendio' (CQS – salary-backed loans), 'cessioni del quinto della pensione' (CQP – pension-backed loans), 'delegazione di pagamento' (DP), and 'anticipo del trattamento di fine servizio' (TFS).

Created to help public sector employees gain access to credit after Italian unification, CDQ was more formally regulated in 1950 by Italy's Law 180/1950 alongside a wider reform of personal credit. However, it remained reserved for public sector employees until 2004, when the product was extended to private sector employees. This extension removed several limitations, such as minimum job tenure, while more flexibility was provided regarding loan duration.

CQS and CQP loans have the following characteristics:

- Target population of public or private sector employees and pensioners
- Duration of 24-120 months
- No maximum amount, depending on the borrower's salary. The average ticket is around EUR 20,000; the maximum amount for IBL is EUR 75,000.
- Monthly repayments of up to 20% of net 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 history

Market leader in a low-risk segment

The group is a market leader in Italy for PDLs. As of YE 2020, it had a 14% market share in CQS and CQP (14.3% in 2019). Despite the Covid-19 pandemic, the pension/salary-backed loans sector proved resilient in 2020, with a positive yearly flow of EUR 6.2bn. This represented a contraction of only 1.1% versus 2019. IBL's drop in yearly flows was negligible at 0.5% hence its market share in new originations proved strong in 2020 at 14.5% (14% in 2019).

Shift in competitive dynamics despite moderately high entry barriers

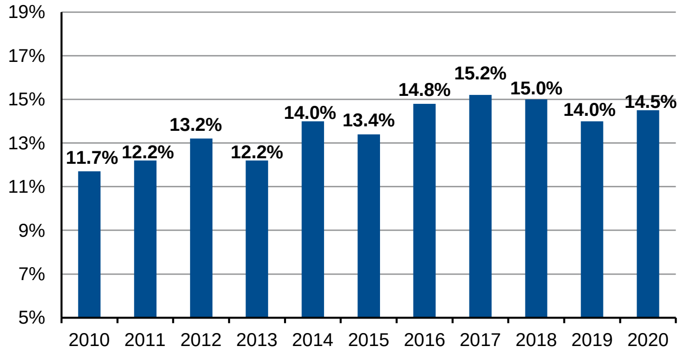
IBL expects the absolute size of the market to expand over the medium term. CQS pricing has historically been higher than plain vanilla consumer credit. But pricing has come down as some of the savings from a change in regulatory treatment of CQS and

CQP loans under Capital Requirements Regulation II has been transferred to consumers. This development will likely also translate into increasing competition from new entrants in a market that has traditionally featured high barriers given the specificity of the product, which entails a relatively complex structure with several players involved and a comparatively lengthy origination process.

IBL also offers 'doppio quinto' loans, a DP-type loan similar to a CQS loan (only for permanent employees). The difference is that a 'doppio quinto' loan can be up to 40% of the borrower's salary amount, and in some cases even 50%. It also 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.

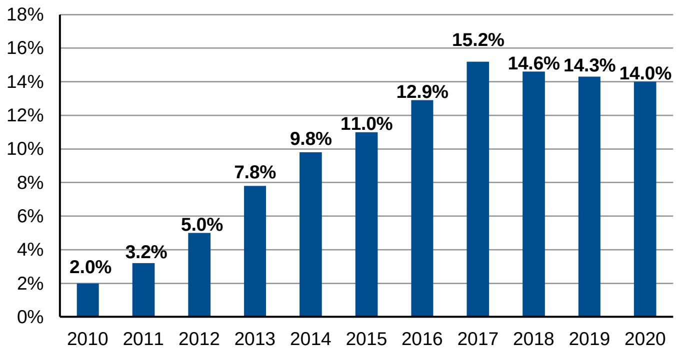
To complement its range of products, IBL has also started offering TFS loans, which anticipate the severance pay that public sector employees are entitled to at the end of their career. These represented 2% of the loan book in 2019, 3% in 2020 (with 67% growth in outstanding). IBL also offers savings and insurance products, as well as payment cards.

Figure 1: IBL's market share, new business



Source: Company data, Assofin, Scope Ratings

Figure 2: IBL's market share, stock

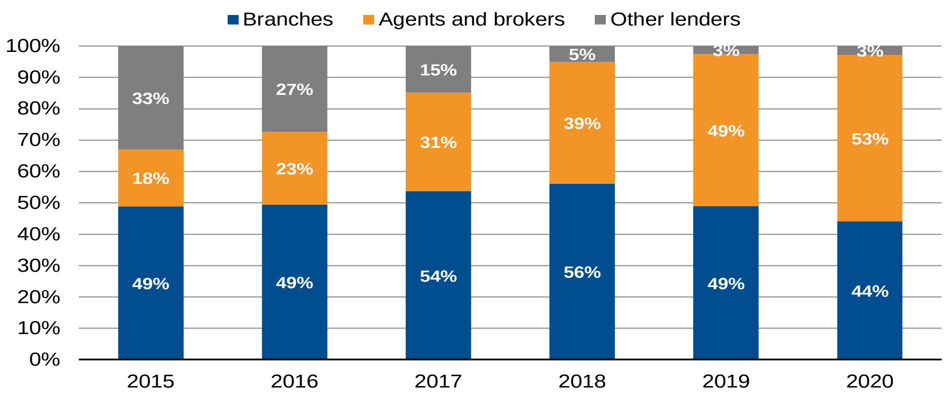


Source: Company data, Assofin, Scope Ratings

Good diversification in distribution channels

As at the end of 2020, IBL's commercial model involved direct distribution through its own brand (54 branches) and indirect distribution via financial advisors and bank distribution agreements. Over the past six years, growth has been fuelled by third-party agents and brokers, as well as via branches, which have usually accounted for 50% of annual originations. In contrast, distribution via lenders (in partnership) has shrunk. Covid-related closures in 2020 had an impact on branch distribution volumes.

Figure 3: Relative weight of different distribution channels on total yearly financing (nominal)



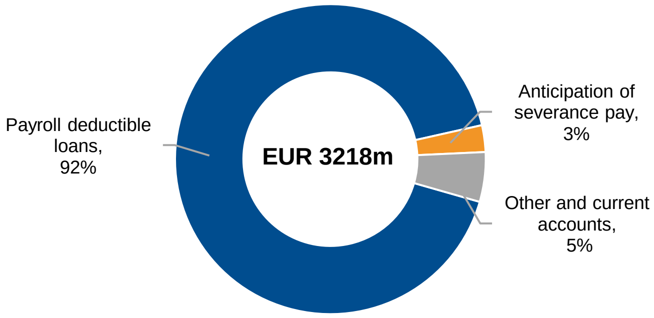
Source: Company data, Scope Ratings

Bulk of IBL's book is lending to public sector and pensioners

Loans to public sector employees and pensioners represent the bulk of IBL's book at 92% of the total (94% in 2019), with the balance divided into anticipation of severance pay (3%) and other loans (5%).

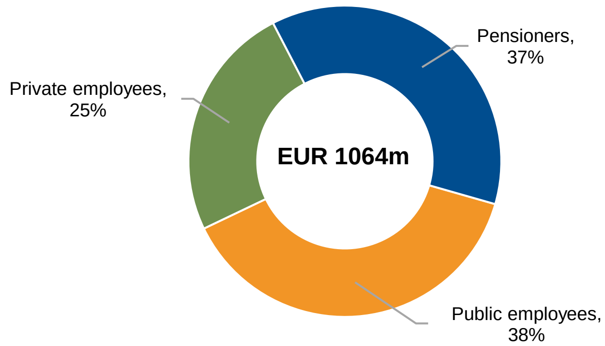
IBL has a very granular credit portfolio given the small average tickets, and it does not show large concentrations. PDLs have an extremely low credit risk, which essentially stems from the employer or insurance company. In 2020 three quarters of new loans were granted to public employees and pensioners, whose risk of income loss is particularly limited. The share represented by private employees was material at 25% (24% in 2019), and it has grown markedly in the past few years.

Figure 4: Loans to customers, YE 2020



Source: Company data, Scope Ratings

Figure 5: Origination mix, YE 2020



Source: Company data, Scope Ratings

Asset quality metrics are strong, with an NPL ratio of 2.9% (2.4% in 2019) and a 19% coverage ratio (flat YoY). As expected, Covid-19 lockdowns had a negligible impact on the bank's asset quality, with less than EUR 1m of gross loans subject to Covid-19 support measures (almost entirely classified as performing).

Strong profitability and capital metrics, further reinforced by change in regulatory stance with regard to PDLs

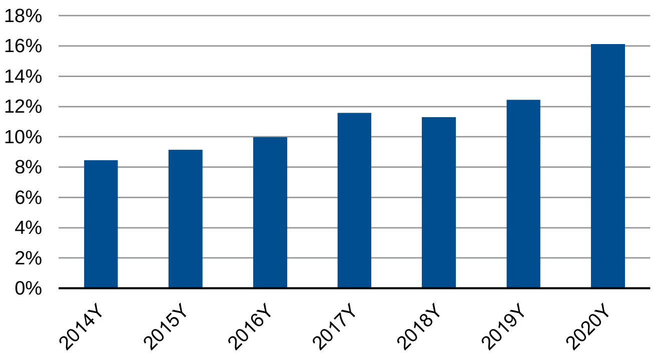
IBL's profitability is high, which provides the bank with a strong first line of defense in downturns. 2020 pre-provision income improved by 38% YoY to EUR 62m. On top of that, IBL recorded EUR 3.4m of additions to provisions, a 14% decline YoY, leading to a return on equity of over 10% (from 8% one year prior).

Increased buffer to minimum capital requirements

In June 2020, following the implementation of Capital Requirements Regulation II, the risk weighting of PDLs under standardised models dropped from 75% to 35%. This released significant capital for IBL and significantly boosted the bank's capital ratios, resulting in a Common Equity Tier 1 (CET1) ratio of 16.1% on a transitional basis at the end of 2020 (versus 12.5% in 2019).

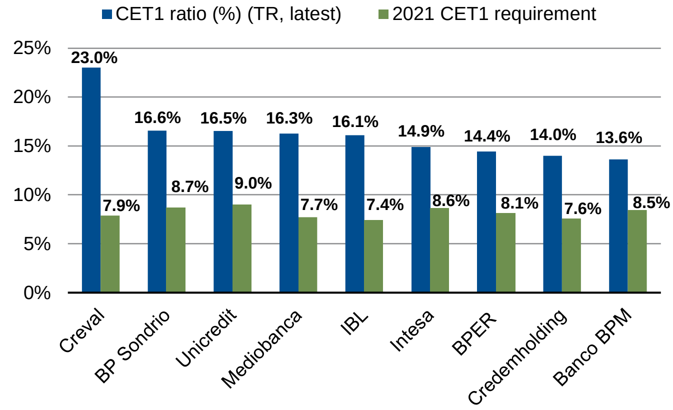
Additionally, given a lower Pillar 2 requirement (0.7%) compared to most Italian banks, overall capital requirements tend to be lower than domestic peers. With a 2021 Supervisory Review and Evaluation Process requirement of 7.4% for CET1, IBL's buffer stood at 873 bps on the CET1 requirement at YE 2020, 805 bps on Tier 1, and 629 bps on total capital.

Figure 3: IBL's historical CET1 ratio



Source: SNL, Scope Ratings

Figure 4: IBL's capital position compared to that of selected Italian banks



Source: Company data, SNL, Scope Ratings

Strategic targeting of market share consolidation and business diversification

IBL's board of directors approved new strategic guidelines for 2019-21 at the beginning of 2019. The bank originally aimed to consolidate its position in the PDL market with a goal of 18%-20% of market share while cautiously diversifying into other product segments. 2020 has been rewarding from an earnings perspective, also given advantageous conditions for TLTRO funding, from a portfolio perspective, volumes have only slightly missed targets.

Cautious and well-managed approach to diversification outside the core business

In April 2021, following the ECB's approval, IBL completed its acquisition of Banca Capasso Antonio and Banca di Sconto e Conti Correnti, which it had announced in November 2020. These two minor acquisitions suit IBL's overall strategic direction with respect to its core business and diversification into the non-performing exposures sector. The group's targets for 2023 now include increasing PDL financing to EUR 4bn with EUR 3bn of direct customer funding and a return on equity of 11%.

IBL Family will merge with Banca Sconto by incorporation, allowing the new entity to further penetrate the PDLs market through strategic partnerships.

Banca Capasso will operate in the retail banking sector and in non-performing assets in two ways:

- Secured (by commercial and residential guarantees): with an investment of approximately EUR 300m in large-ticket single names by 2023, while also operating as advisors during the transactions.
- Unsecured: Credit Factor, a joint venture (50/50) created by IBL and EuropaFactor in 2018 to purchase and manage small-ticket unsecured NPLs originated by banks, was transferred to Capasso.

Moreover, IBL holds a 27.02% share in Net Insurance, a key player in PDL insurance, with an agreement to distribute their insurance products for individuals and households through its branch network. Banca Capasso and Banca Sconto both joined the agreement in 2021.

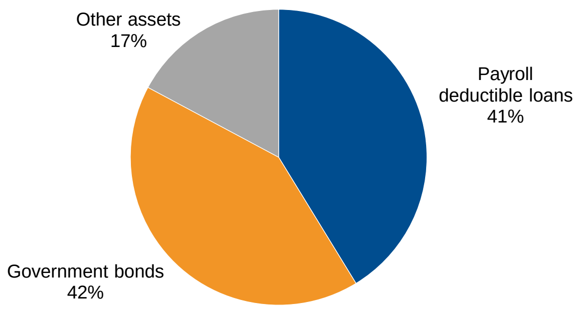
Material exposure to Italian sovereign risk

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 finance business growth. As of YE 2020, its Italian government bond portfolio stood at approximately EUR 3bn. That represents an increase of EUR 0.9bn YoY and eight times the group's CET1 capital, which is very high.

While we consider Italian government bonds to be safe assets (Scope rates Italian debt at BBB+, Stable Outlook), having such a large, concentrated exposure to one borrower would pose a non-negligible risk under any circumstances. Such a position is self-funded via repos, and it may result in a drain on liquidity in a scenario of rising haircuts, in spite of IBL maintaining a buffer on unencumbered bonds as a liquidity reserve.

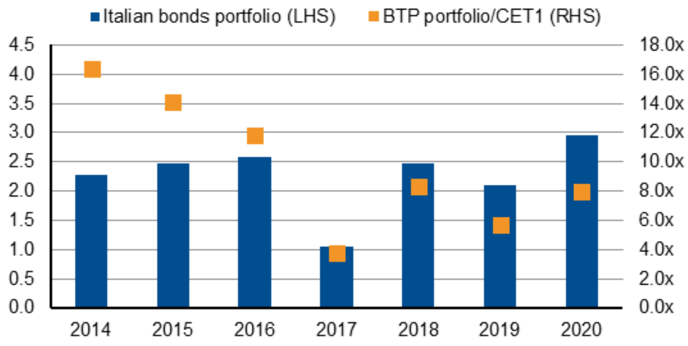
Positively, the entire portfolio was classified as held to collect (at cost) at year-end. This reduces risks to capital. IBL expects to significantly reduce its exposure by YE 2021 too.

Figure 5: Total asset breakdown, YE 2020



Source: Company data, Scope Ratings

Figure 6: Total exposure to Italian debt in absolute terms and as % of transitional CET1, historical



Source: Company data, Scope Ratings

TLTRO3 eligibility provides funding surplus and flexibility

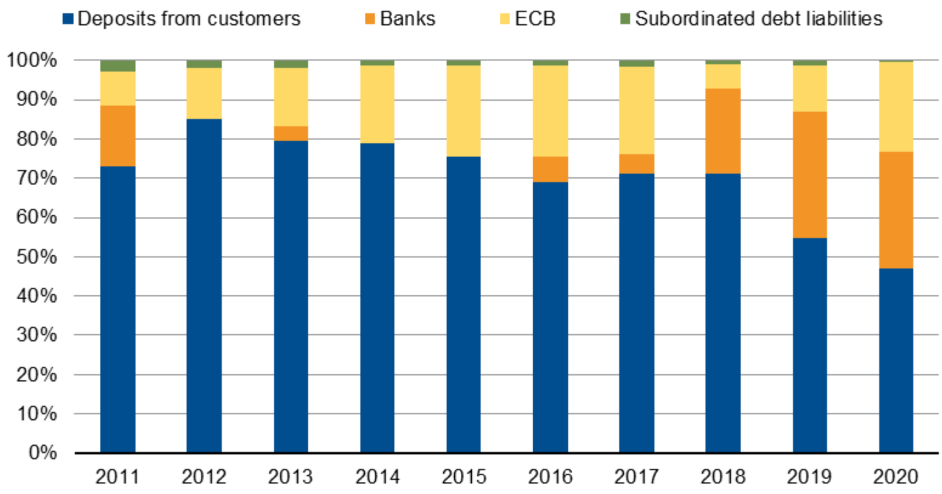
The core PDL business has historically been funded primarily via a mix of deposits, central bank funding and private repos (Figure 10). Recently, however, IBL has been shifting more to ECB funding and customer deposits, while reliance on interbank funding and securitisations has been decreasing in importance, although it remains significant.

Funding mix to shift given TLTRO and ABACO eligibility

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.

The deposit base is granular and showed a strong increase of 15% YoY in 2020. In future, the bank plans to further exploit its branch capabilities by stepping up its retail accounts offering. ECB funding in the form of TLTRO and pandemic emergency longer-term refinancing options stood at EUR 1.5bn as of YE 2020. This entails significant benefits for cost of funding at present and going forward.

Figure 7: IBL's historical funding breakdown



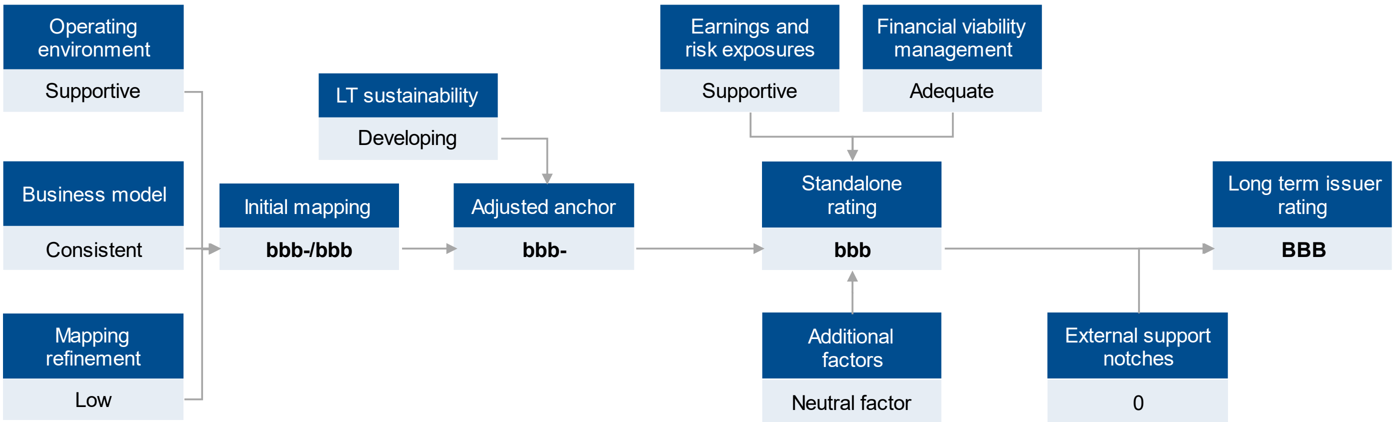
Source: Company data, SNL, Scope Ratings

Owned and closely controlled by management

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

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

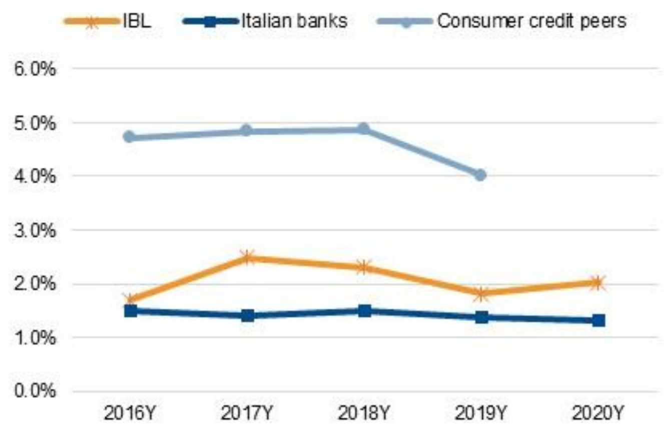
I. Appendix: Overview of the rating process



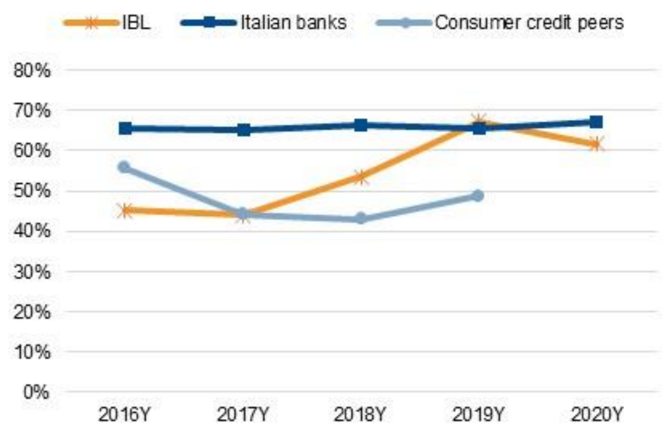
Step		Assessment	Summary rationale
STEP 1	Operating environment	Very supportive **Supportive** Moderately supportive Constraining Very constraining	• Italy is a large, mature, diversified economy within the eurozone with a sound legal and regulatory framework. • Financial market is well developed, and structural metrics for the banking sector are adequate.
	Business model	Very resilient Resilient **Consistent** Focused Narrow	• Leader in the Italian market for PDLs, which is a high-margin, low-risk personal loan product with a long history in Italy • Competition and pricing pressure have increased following the change in regulatory treatment of PDLs. • Cautious focus on business diversification
	Mapping refinement	High **Low**	• IBL has a lower degree of business diversification compared to peers.
	Initial mapping	**bbb/bbb-**	
	Long-term sustainability	Best in class Advanced **Developing** Lagging	• Ongoing efforts to increase digitalisation of the origination process • Lean organisation leveraging back office automation • CEO represents a key person risk for the bank
	Adjusted anchor	**bbb-**	
STEP 2	Earnings capacity and risk exposures	Very supportive **Supportive** Neutral Constraining Very constraining	• Return on average equity averaging 16% over the past five years, at the upper end of consumer finance peers and significantly above domestic banks • Granular, stable PDL portfolio • High exposure to Italian sovereign risk
	Financial viability management	Ample Comfortable **Adequate** Limited Stretched At risk	• Funded by a mix of deposits and central bank funding, followed by interbank funding and securitisations • Italian bonds are mainly financed through short-term repos, which poses a risk to liquidity if haircuts rise. • Capital position is strong and provides for a solid buffer to requirements, especially after the recent decline in risk-weights for PDLs.
	Additional factors	Significant support factor Material support factor **Neutral** Material downside factor Significant downside factor	• No additional factors considered
	Standalone	**bbb**	
STEP 3	External support	Not applicable	
Issuer rating		**BBB**	

II. Appendix: Peer comparison

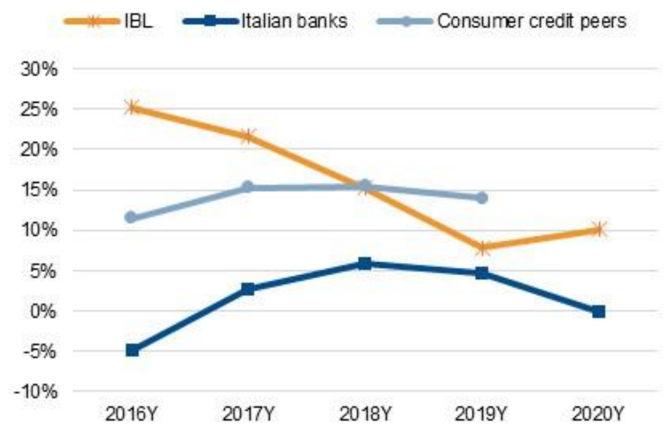
Net interest margin



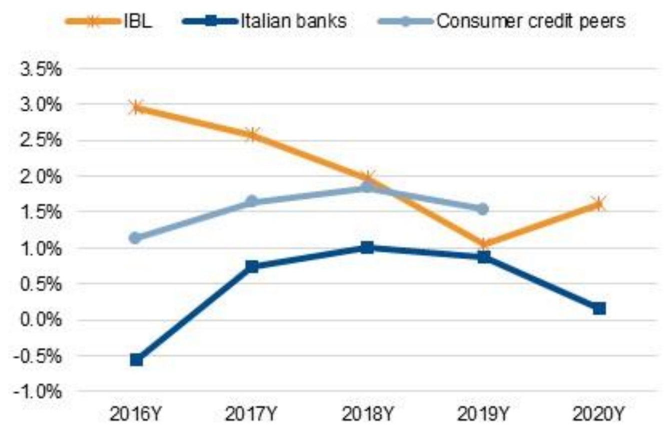
Cost-income ratio



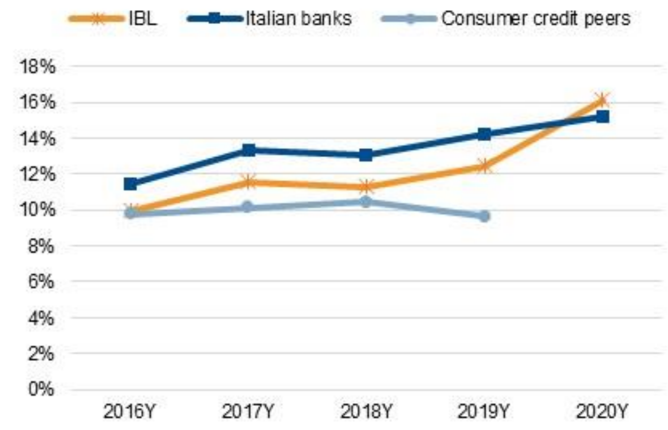
Return on average equity



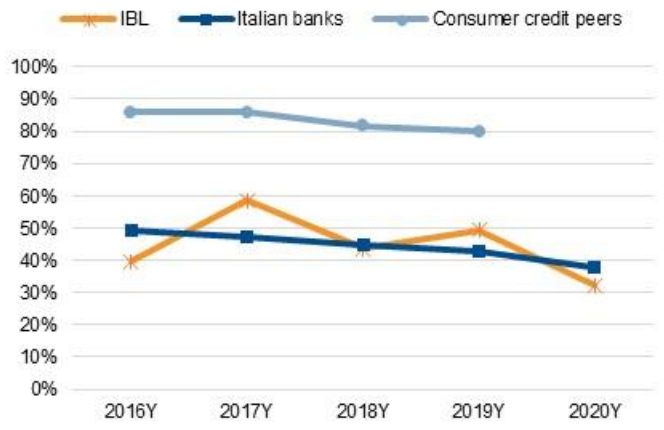
Return on risk-weighted assets



CET1 ratio (phased-in)



Asset risk intensity (RWAs as % of total assets)



Source: SNL, Scope Ratings
Italian banks: Intesa Sanpaolo, UniCredit, Banco BPM, MPS, BPER, Mediobanca, BP Sondrio, Credem
Consumer credit peers: BCC CreditoConsumo, Sella Personal Credi, Creditis Servizi Finanziari, Fiditalia, Findomestic, Prestitalia, Santander Consumer Bank

Note: consumer credit peers' 2020Y average excluded for lack of data

III. Appendix: Selected financial information – IBL Banca S.p.A.

	2016Y	2017Y	2018Y	2019Y	2020Y
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	376	285	424	459	488
Total securities	2,619	495	81	205	30
of which, derivatives	32	17	22	26	22
Net loans to customers	2,316	3,180	5,243	4,988	6,203
Other assets	248	248	276	383	399
Total assets	**5,559**	**4,207**	**6,023**	**6,036**	**7,120**
Liabilities					
Interbank liabilities	1,534	1,008	1,527	2,382	3,419
Senior debt	1	1	1	1	0
Derivatives	45	26	54	78	67
Deposits from customers	3,545	2,654	3,914	2,972	3,041
Subordinated debt	60	60	60	60	12
Other liabilities	132	144	123	142	138
Total liabilities	**5,316**	**3,892**	**5,678**	**5,635**	**6,677**
Ordinary equity	242	315	345	394	434
Equity hybrids	0	0	0	0	0
Minority interests	0	0	0	8	8
Total liabilities and equity	**5,559**	**4,207**	**6,023**	**6,036**	**7,120**
Core tier 1/ common equity tier 1 capital	*219*	*286*	*297*	*371*	*371*
Income statement summary (EUR m)					
Net interest income	87	115	112	104	125
Net fee & commission income	30	14	7	11	14
Net trading income	48	36	34	18	20
Other income	1	1	3	4	3
Operating income	**166**	**167**	**155**	**137**	**162**
Operating expenses	75	74	83	92	100
Pre-provision income	**91**	**94**	**72**	**45**	**62**
Credit and other financial impairments	2	4	-2	4	3
Other impairments	0	0	0	0	0
Non-recurring income	NA	NA	NA	NA	NA
Non-recurring expense	NA	NA	NA	NA	NA
Pre-tax profit	**89**	**89**	**74**	**41**	**60**
Income from discontinued operations	0	0	0	0	0
Income tax expense	28	29	24	11	17
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	0	0	0	0	1
Net profit attributable to parent	**61**	**60**	**50**	**29**	**42**

Source: SNL, Scope Ratings

IV. Appendix: Selected financial information – IBL Banca S.p.A.

	2016Y	2017Y	2018Y	2019Y	2020Y
Funding and liquidity					
Net loans/ deposits (%)	65%	120%	134%	168%	204%
Liquidity coverage ratio (%)	NA	NA	NA	146%	180%
Net stable funding ratio (%)	NA	NA	NA	NA	NA
Asset mix, quality and growth					
Net loans/ assets (%)	41.7%	75.6%	87.0%	82.6%	87.1%
Problem loans/ gross customer loans (%)	1.9%	NA	1.6%	2.1%	1.8%
Loan loss reserves/ problem loans (%)	24.0%	NA	26.9%	24.7%	25.0%
Net loan growth (%)	14.0%	37.3%	64.9%	-4.9%	24.4%
Problem loans/ tangible equity & reserves (%)	17.9%	NA	22.5%	24.8%	25.0%
Asset growth (%)	7.7%	-24.3%	43.2%	0.2%	18.0%
Earnings and profitability					
Net interest margin (%)	1.7%	2.5%	2.3%	1.8%	2.0%
Net interest income/ average RWAs (%)	4.2%	4.9%	4.4%	3.7%	4.7%
Net interest income/ operating income (%)	52.3%	69.1%	72.2%	75.6%	77.3%
Net fees & commissions/ operating income (%)	18.2%	8.5%	4.4%	7.8%	8.9%
Cost/ income ratio (%)	45.1%	44.0%	53.4%	67.3%	61.7%
Operating expenses/ average RWAs (%)	3.6%	3.2%	3.3%	3.3%	3.8%
Pre-impairment operating profit/ average RWAs (%)	4.4%	4.0%	2.8%	1.6%	2.4%
Impairment on financial assets / pre-impairment income (%)	2.3%	4.6%	-2.3%	8.8%	5.5%
Loan loss provision/ average gross loans (%)	0.1%	NA	NA	0.1%	0.1%
Pre-tax profit/ average RWAs (%)	4.3%	3.8%	2.9%	1.4%	2.3%
Return on average assets (%)	1.1%	1.2%	1.0%	0.5%	0.6%
Return on average RWAs (%)	3.0%	2.6%	2.0%	1.0%	1.6%
Return on average equity (%)	25.2%	21.6%	15.3%	7.8%	10.1%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	12.3%	15.9%
Common equity tier 1 ratio (%, transitional)	10.0%	11.6%	11.3%	12.5%	16.1%
Tier 1 capital ratio (%, transitional)	10.9%	12.4%	12.1%	13.2%	17.0%
Total capital ratio (%, transitional)	12.8%	13.8%	13.0%	13.7%	17.5%
Leverage ratio (%)	4.4%	7.3%	5.1%	6.4%	5.4%
Asset risk intensity (RWAs/ total assets, %)	39.6%	58.7%	43.7%	49.4%	32.3%
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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