

# Crystallising political risk unhelpful for Italian banks



Scope  
Ratings

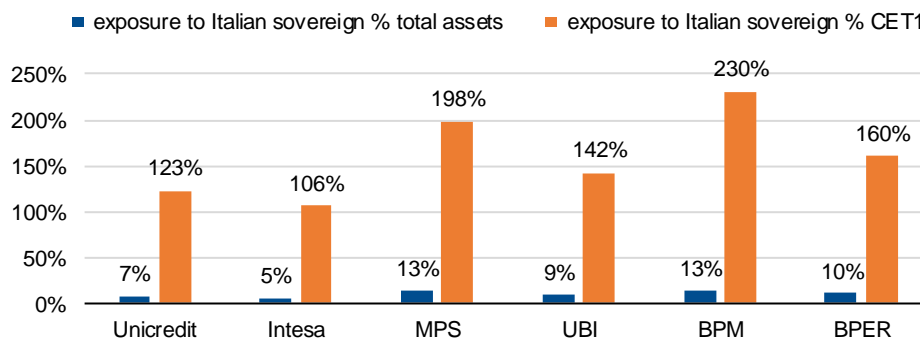
Italian shares and bonds continue to be beset by bouts of volatility as the confused situation around the formation of the new government plays out. As well as Italian government bonds, bank stock and bonds have been susceptible to the news flow.

"The formation of an anti-establishment populist government in Italy raises questions about the sovereign credit outlook, but it will also have an impact on the credit outlook for the banks," said Marco Troiano, executive director for financial institutions at Scope. "We have previously flagged Italian political risk, but it re-emerged following the March elections and is a potential rating-change driver for Intesa and UniCredit."

Scope rates Intesa and UniCredit at A with a Stable Outlook. Even though that is one notch higher than the rating on the Italian sovereign, sovereign risk exposure is seen as a critical risk factor. While both banks have more diversified sovereign portfolios than they did in the past, their respective exposures remain substantial.

"Our bank methodology does not cap bank ratings at the level of their sovereign, which is relevant in the case of strong banks such as Intesa and Unicredit, but the banks' exposures to Italian sovereign risk are greater than their entire CET1 capital bases. The risk is material," says Troiano.

**Chart 1: Quantifying banks' Italian sovereign exposure**



Risks to the sovereign outlook stem from the high estimated fiscal cost of some of the proposed policies as well as likely tensions with EU partners if they are acted on. More broadly, Scope is concerned that political uncertainty could reverberate through credit markets, negatively affecting the value of Italian government bonds in banks' portfolios or raising the banks' cost of funding in wholesale markets.

"Funding costs for Italian banks are still linked with yields on government debt. The sovereign spread has already widened, and this may impact funding conditions," Troiano said.

The uncertainty and volatility in the market come at a particularly bad time as some Italian banks are still trying to rid themselves of non-performing loans. "Our analysis of Italian banks' business plans shows that many, especially the mid-sized players, are planning to reduce their NPEs through asset sales. Foreign investors may be less keen to take on Italian risk given the policy uncertainty," Troiano adds.

The draft agreement between Lega and M5S includes some direct references to the banking sector, including proposals for a radical review of bail-in legislation, limitations on the ability to seize collateral without judicial authorisation, and reform of bank supervision.

"The draft agreement is light on detail but I doubt any Italian government can seriously think of rolling back the Bank Recovery and Resolution Directive, or the Banking Union. It is too early for a definitive opinion but none of this looks helpful in terms of sentiment", concludes Troiano.

## Analyst

Marco Troiano  
+44 20 3457 0577  
[m.troiano@scoperatings.com](mailto:m.troiano@scoperatings.com)

## Team leader

Sam Theodore  
+44 20 3457 0452  
[s.theodore@scoperatings.com](mailto:s.theodore@scoperatings.com)

## Media

André Fischer  
+49 30 27891 147  
[an.fischer@scopeanalysis.com](mailto:an.fischer@scopeanalysis.com)

## Investor Outreach

Martin Kretschmer  
+49 69 6677389 86  
[m.kretschmer@scoperatings.com](mailto:m.kretschmer@scoperatings.com)

## Related Research

Formation of Italy's new government raises questions on sovereign outlook, euro area reform  
22 May 2018

## Scope Ratings GmbH

Suite 301  
2 Angel Square  
London EC1V 1NY

Phone +44 20 3457 0444

## Headquarters

Lennéstraße 5  
10785 Berlin

Phone +49 30 27891 0  
Fax +49 30 27891 100

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)



Bloomberg: SCOP



## Crystallising political risk unhelpful for Italian banks

### Scope Ratings GmbH

#### Headquarters Berlin

Lennéstraße 5  
D-10785 Berlin

Phone +49 30 27891 0

#### London

Suite 301  
2 Angel Square  
London EC1V 1NY

Phone +44 20 3457 0444

#### Oslo

Haakon VII's gate 6  
N-0161 Oslo

Phone +47 21 62 31 42

#### Frankfurt am Main

Neue Mainzer Straße 66-68  
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

#### Madrid

Paseo de la Castellana 95  
Edificio Torre Europa  
E-28046 Madrid

Phone +34 914 186 973

#### Paris

33 rue La Fayette  
F-75009 Paris

Phone +33 1 82 88 55 57

#### Milan

Via Paleocapa 7  
IT-20121 Milan

Phone +39 02 30315 814

[info@scoperatings.com](mailto:info@scoperatings.com)  
[www.scoperatings.com](http://www.scoperatings.com)

### Disclaimer

© 2018 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Analysis, Scope Investor Services GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope cannot, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided "as is" without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or otherwise damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party, as opinions on relative credit risk and not as a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.

Scope Ratings GmbH, Lennéstrasse 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Torsten Hinrichs.