28 July 2023 Financial Institutions

Istituto Bancario del Lavoro SpA Issuer Rating Report

Scope's credit view (summary)

The BBB issuer rating is driven by the prime positioning of Istituto Bancario del Lavoro SpA (IBL) in the Italian payroll and pension-deductible loans (PDLs) sector, a relatively low-risk business.

The benefit of reduced risk weights for PDLs under the Capital Requirements Regulation II has been transferred to consumers through lower pricing. At the same time, it has increased competitive pressure from new players. This trend has been amplified by the rising interest rates. Even so, IBL's market share of new business, after a slight decline in 2021, improved in 2022 after origination volumes grew above market.

IBL's credit portfolio is adequately diversified with a mix of public and private employees and pensioners. The bulk of loans comprises PDLs and delegation-of-payment (DP) loans, with another 3% in anticipated-severance-pay loans (TFS loans).

Asset quality indicators of PDLs show very low sensitivity to economic downturns.

IBL is cautiously pursuing diversification outside its core business by investing in secured and unsecured non-performing exposures (NPEs) through its subsidiary Banca Capasso. In 2022, however, the contribution from this line of business and IBL's participation in insurance company Net Insurance did not fully offset the decline in earnings from the core business.

We expect margins to remain under pressure in 2023 as the repricing of liabilities is occurring faster than on lending and the bank is replacing its TLTRO funding with more expensive market sources. We also expect the bank to maintain adequate buffers to capital requirements following the recent increase in Pillar 2 requirements.

The bank's exposure to Italian government bonds remains material. The bonds are used as collateral for short-term repo financing on the interbank market and with the Italian central counterparty (cassa di compensazione e garanzia). The securities portfolio represents a positive although volatile contribution to earnings.

While the bank's funding still relies heavily on central bank funding, repos of loans and sovereign bonds, customer deposits have been increasing, contributing to the stability of the funding profile.

Outlook

The **Outlook is Stable**, reflecting our view that IBL will be able to mitigate margin pressure from rising funding costs.

What could move the rating down:

- Pressure on pre-provision profitability persisting, reducing the ability to absorb potential losses
- Tighter management of buffers to minimum capital requirements
- Challenges to the bank's funding profile as market conditions may hinder the ability to extensively use Italian sovereign debt securities for repo funding purposes

What could move the rating up:

- We see little upside to the rating level at this time as operating conditions have become more challenging, limiting a material strengthening in the bank's financial performance.

Ratings & Outlook

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

Lead Analyst

Chiara Romano
c.romano@scoperatings.com

Team Leader

Marco Troiano, CFA
m.troiano@scoperatings.com

Scope Ratings GmbH

Lennéstraße 5
D-10785 Berlin

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

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

Issuer and product profile

Issuer

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

IBL Banca S.p.A. is the parent company of the IBL banking group, which had EUR 7.6bn in assets as of YE 2022. Its fully owned subsidiaries are IBL Servicing S.p.A. (recovery of PDLs), IBL Real Estate Srl (real estate) and Moneytec (blockchain technology). Banca Capasso Antonio S.p.A. and Banca di Sconto were acquired in 2021. Banca di Sconto (70% shareholding) incorporated IBL Family, a joint venture with real estate agent network Tecnocasa, which originates PDLs in conjunction with home-buying processes.

IBL is a specialised lender offering personal loans, particularly Italian PDLs, to Italian individuals. PDL loans include salary-backed loans (CQS loans; cessioni del quinto dello stipendio in Italian), pension-backed loans (CQP; cessioni del quinto della pensione), DP loans (delegazione di pagamento) and anticipated-severance-pay loans (TFS loans; anticipo del trattamento di fine servizio).

Products

Created to help public sector employees gain access to credit after the Italian unification in the 19th century, PDLs became more formally regulated in 1950 by Italy's Law 180/1950 alongside a wider reform of personal credit. However, it remained reserved to public sector employees until 2004, when the product was extended to private sector employees. This extension removed several limitations such as minimum job tenure and increased the flexibility around 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
- Monthly repayments of up to 20% of net salary or pension, including capital, interest and all fees
- Direct deductions from payroll or pension
- 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); also available to individuals with poor credit history

DP loans are similar to CQS loans. The difference is that this loan can reach 40% of the borrower's salary, and in some cases 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 with employers.

TFS loans are extended in anticipation of the severance pay that public sector employees are entitled to at the end of their career.

Summary rationale for the rating construct

	Step	Assessment	Summary rationale
STEP 1	Operating environment	Very supportive	• Italy is a large, mature, diversified economy within the eurozone with a sound legal and regulatory framework. • Developed financial market; adequate structural metrics for the banking sector
		Supportive	
		Moderately supportive	
		Constraining	
		Very constraining	
	Business model	Very resilient	• Leader in PDLs, a low-risk personal loan product with a long history in Italy • Increased competitive and pricing pressures following the change in PDL regulatory treatment • Cautious focus on business diversification
		Resilient	
		Consistent	
		Focused	
		Narrow	
	Mapping refinement	High	• Lower business diversification than peers with same initial mapping
		Low	
	Initial mapping	**bbb-/bbb**	
	Long-term sustainability	Best in class	• Efforts to increase digitalisation with the support of A.I. technology • Lean organisation leveraging back-office automation • CEO representing key person risk
		Advanced	
		Developing	
		Constrained	
		Lagging	
	Adjusted anchor	**bbb-**	
STEP 2	Earnings capacity & risk exposures	Very supportive	• Historically high returns, at the upper end of consumer finance peers and well above those of domestic banking peers • Earnings under pressure from declining margins, but supported by contribution from non-core activities • Granular, stable PDL portfolio leading to low through-the-cycle credit losses
		Supportive	
		Neutral	
		Constraining	
		Very constraining	
	Financial viability management	Ample	• Funded primarily by deposits and central bank funding, followed by interbank funding and securitisations • Italian bonds mainly financed through short-term repos, which may pose a risk to liquidity if haircuts rise • Capital position providing adequate buffer to requirements
		Comfortable	
		Adequate	
		Limited	
		Stretched	
		At risk	
	Additional factors	Significant support factor	• No additional factors considered
		Material support factor	
		Neutral	
		Material downside factor	
		Significant downside factor	
	Standalone	**bbb**	
STEP 3	External support	Not applicable	
Issuer rating		**BBB**	

Strong market position in Italian PDLs, strategically targeting market share consolidation and business diversification

The 'Consistent' business model assessment reflects our view of IBL's strong market position in the Italian PDL sector, a low-risk business.

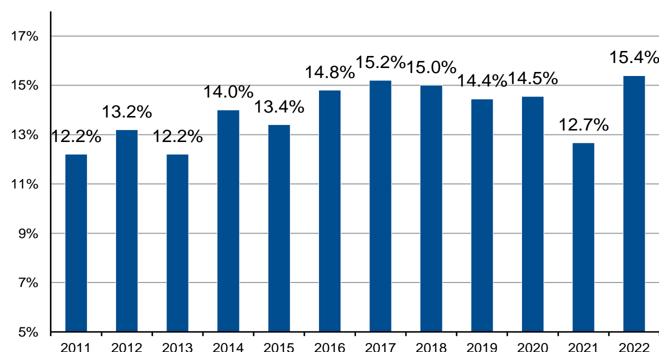
The 'Supportive' operating environment assessment reflects our view that the Italian economy shows supportive features, is mature and diversified and has a sound legal and regulatory framework.

The group is a market leader in Italy for PDLs. As of YE 2022, it had a 13.9% market share in CQS and CQP loans. Despite the Covid-19 pandemic, the PDL sector proved resilient in 2020, with new business contracting by just 1%. In 2021 and 2022, new business in the sector rebounded strongly. This was especially the case for IBL, whose market share in new business picked up to around 15% as at YE 2022.

Shift in competitive dynamics despite moderate entry barriers

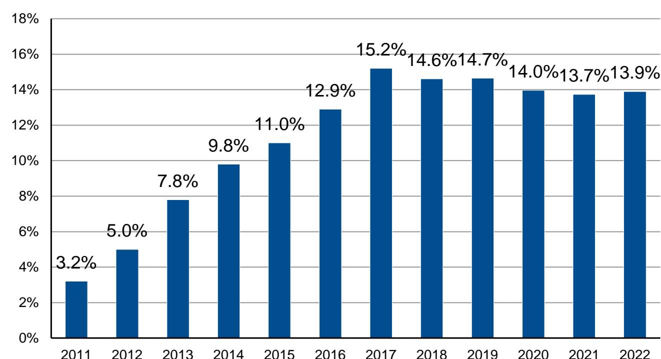
While historically CQS pricing has been higher than for plain vanilla consumer credit, starting in 2017 it has declined materially, with the trend further reinforced by the lower capital consumption following the implementation of the Capital Requirements Regulation II. The delta is currently negative, making CQS around 200bp cheaper than plain vanilla personal loans. This development has translated into increasing competition from new entrants, in a market that has traditionally featured high barriers to entry given the specificity of the product, which entails a complex structure involving several players and a lengthy origination process. The increase in interest rates should also reinforce this trend.

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

The bulk of loans to customers is represented by PDLs and DPs (90% of total). To complement its range of products, IBL started offering TFS loans which represented 3% of the loan book in 2022 (stable YoY). IBL also offers savings and insurance products and payment cards.

IBL is cautiously approaching diversification outside its core business

Other financing makes up around 8% of total lending to customers. IBL is actively pursuing diversification outside the CQS business and into NPE investment through Banca Capasso:

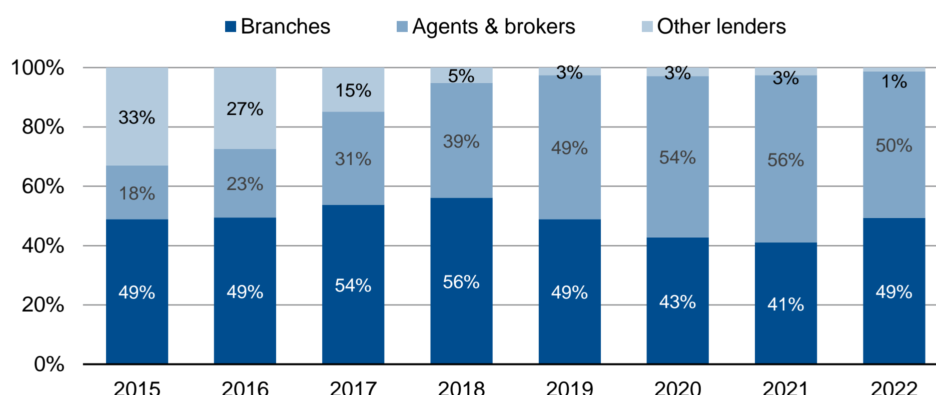
- Secured NPEs by commercial and residential guarantees: with a cumulative investment of around EUR 330m in large-ticket single names in 2024; Banca Capasso also operates as an advisor in the transactions.
- Unsecured NPEs through Credit Factor, a joint venture (50/50) created by IBL and Europa Factor in 2018 to purchase and manage small-ticket unsecured non-performing loans (NPLs) originated by other banks.

We consider IBL's investment of capital and resources in these new ventures to be well managed and that the volumes involved should not materially alter the entity's risk profile. At the same time, IBL expects NPE-related activity to significantly contribute to earnings over the strategic horizon until 2024. The strategy also includes initiatives to strengthen IBL's position in PDLs, including those intended to improve renewal rates, shorten the time to market and further automate the origination process.

Good diversification in distribution channels

As at YE 2022, 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 (which have usually accounted for 50% of annual origination) and branches. In 2021, distribution agreements with other lenders were terminated.

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



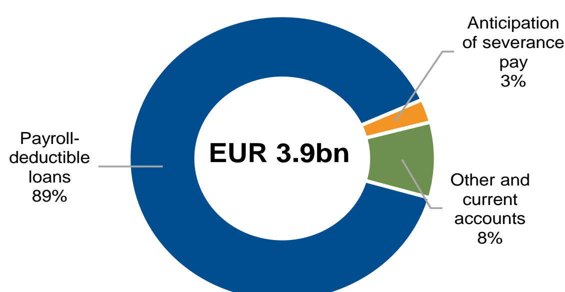
Source: Company data, Scope Ratings

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

IBL's portfolio is adequately diversified by counterparty. In 2022, origination roughly comprised 40% to public employees, 24% to private employees and 36% to pensioners.

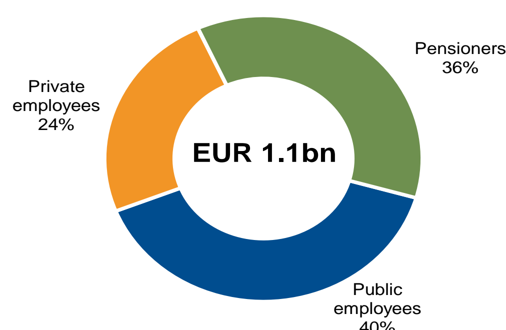
IBL has a very granular credit portfolio given the small average tickets, and it does not show large concentrations. However, concentration risk could be present in terms of the employer or insurance counterparty: IBL has agreements with five companies, the largest Italian life and non-life insurance companies, and insurance company Net Insurance (in which IBL owns a 40% stake), with a single counterparty limit at 20% of exposures.

Figure 4: Loans to customers, YE 2022



Source: Company data, Scope Ratings

Figure 5: Origination mix, 2022



Source: Company data, Scope Ratings

Around three-quarters of new loans are granted to public employees and pensioners, with the weight of private employees increasing slightly overt time to around 25% of the total.

This does not translate in an increase in credit risk, as default rates of private sector borrowers have declined markedly, to a level below those from the public sector.

Low mapping refinement

We view the initial mapping to be best anchored in the 'low' (bbb-/bbb) part of the bbb range. This is because we see IBL's degree of business diversification as lower than for peers with the same initial mapping.

Box A: Focus on IBL's operating environment: Italy

Macroeconomic assessment – key credit considerations

- Italy is the world's eighth largest economy and the EU's third largest after Germany and France. It is the second largest manufacturer in the EU, with a significant trade surplus that has increased over the past decade.
- The economy is diversified, although one of its defining traits is the prevalence of small and micro enterprises, which are often family-owned. This is mirrored in banks' loan books, where SME loans often account for the lion's share.
- As of YE 2022, the country's real GDP per capita was in line with the EU average. However, wealth is concentrated in the north, while southern regions are behind in many social and economic aspects such as growth, employment, infrastructure development and education.
- Historically, the country has suffered from slow GDP growth, low growth potential, an ageing population, low investment and a lack of structural reforms.
- The government debt-to-GDP ratio is the second highest in Europe. High indebtedness, in the context of the rigid European fiscal framework, constrained the government's ability to deploy countercyclical measures in past recessions.

Key economic indicators	2020	2021	2022	2023F	2024F
GDP per capita (USD'000s)	31.8	35.6	34.3		
Real GDP, % change	-9.0	7.0	3.8	1.2	0.8
Unemployment rate, %	9.3	9.5	8.1	7.8	7.6
Headline inflation (annual average, %)	-0.2	1.9	8.7	6.9	2.8
Policy rate, %	-0.50	-0.50	2.00	4.00	3.50
General government debt, % of GDP	155	150	144	142	141

Source: Scope Ratings, Scope Macroeconomic Board's forecasts, SNL

Soundness of the consumer lending sector – key credit considerations

- As of YE 2022 the Italian PDL market had around EUR 24.2bn outstanding (for reference the personal lending stock for the same year stood at around EUR 63.4bn).
- Average yearly growth in the sector was 8% in the last four years. Flows only contracted in 2020 and in 2022 new business stood at EUR 7.1bn.
- Five players dominate the PDL market and account for around 55% of the entire stock as of YE 2022: these include large Italian banking groups, directly or through subsidiaries. A small number of new players, including foreign banking groups, have entered the market in recent years.
- The recent consolidation in the Italian banking sector has translated into higher volumes for the consolidators (e.g. Intesa after taking over UBI) given that many in the market were captive operations of large banking groups.
- The consolidation of the market combined with the entry of new players resulted in concentration as measured by Herfindahl-Hirschman Index being stable over the last four years.

Owned and closely controlled by management; solid preparedness for digital transition

The 'Developing' long-term sustainability assessment reflects our combined view of the strong management of the digital transition and the adequate management of governance risk, for which we deem IBL more exposed than peers.

Figure 6: Exposure and management of key ESGD factors[1]

	Industry level			Issuer level						
	Materiality			Exposure			Management			
	Low	Medium	High	Low	Neutral	High	Weak	Needs attention	Adequate	Strong
E Factor		◇		◇					◇	
S Factor	◇				◇				◇	
G Factor			◇			◇			◇	
D Factor			◇		◇					◇

Source: Scope Ratings

Governance

The business model does not entail a higher exposure to governance risk than other business models. However, IBL's concentrated shareholder base and key person risk in the management team translate into a higher exposure.

Mario Giordano, the bank's CEO since 1998 (when IBL 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 licence 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 Srl and sit on the board of directors.

Given the considerations above and despite the long tenures of both the CEO and the Chairman, we deem financial and non-financial risk controls as well as the management of governance-related issues as 'adequate'.

Digital transition

Historically, given the high barriers to entry, the exposure to the digital transition in the PDL business was lower than for more commoditised banking products. However, given the presence of new entrants as well as established players (often bank captives with inherently stronger IT capabilities), we deem such an exposure as 'neutral'.

IBL's management of the digital transition is 'strong'. Our view is based on management's recognition of and actions over the need to establish leaner back and front office processes, to reduce the time to market and to improve controls over the cost base over the medium term.

Environmental and social factors

Environmental risk is 'low' given the specificities of the PDL product. Social considerations are 'neutral' based on the size of the company and the limited availability of the PDL product for the general population.

[1] The overview table illustrates how each factor informs our overall long-term sustainability assessment. The materiality table shows how we view the credit relevance of each factor for the industry at large. The exposure table shows how we see the issuer's degree of exposure to each ESG-D factor. The management table shows how we view the issuer's management of these exposures.

Low credit losses, but pre-provision income under pressure in current interest rate environment

The 'Supportive' earnings capacity and risk exposures assessment reflects our view that:

- *credit risk on the core business is low and the NPL investing activities will not materially impact it.*
- *the sizeable sovereign debt portfolio is the main driver of concentration risk and gains from such exposures are volatile contributors to earnings.*
- *our expectation that IBL will be able to mitigate pressure on earnings from higher funding costs.*

Since 2019 and despite the competitive pressure affecting margins, solid new production has led to net interest income continuously strengthening. However, pre-provision profitability has been at times volatile, reflecting the trajectory of gains and losses on the securities portfolio.

Until 2021, the cost/income ratio was around 60%, reflecting a balanced approach between investing and cost-saving. Extremely low impairments have led to a comparatively strong result. The return on equity, after a dip in 2019, returned to 10% in 2020 and 13% in 2021.

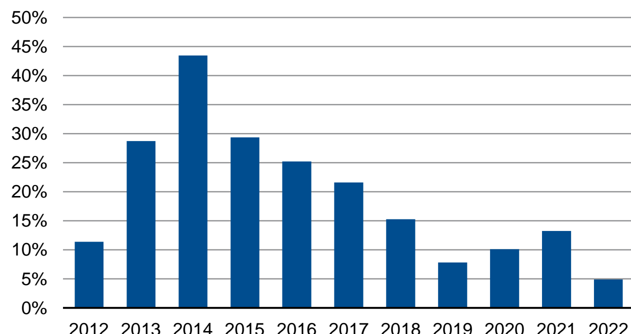
In 2022, IBL's performance was challenged by lower gains on the disposal of securities held to maturity, higher marketing and personnel costs, and IT migration expenses related to recent acquisitions. Around EUR 12m of provisions were also raised for the potential reimbursement of costs incurred by customers for early loan repayment (Lexitor decision).

Positively, loan impairments remain low. In 2022, the bank even reversed EUR 2.5m of provisions.

Unlike with plain vanilla personal loans, the credit risk associated with PDLs stems not from the borrower, but from the employer or the pension provider in the first instance and from the insurance company in the second instance given the mandatory insurance coverage for loss of employment or death. Consequently, asset quality indicators have shown very low sensitivity to economic downturns.

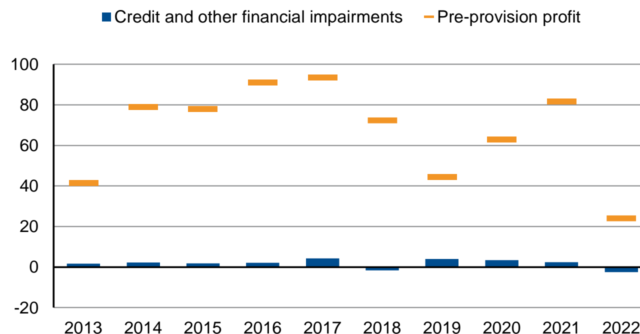
Asset quality on the core business is strong, with an NPL ratio of 2.0% in 2022 (from 2.5% in 2021) and a 24% coverage ratio, increasing by 4 pp YoY. When including acquired NPEs such metrics worsen marginally, to 2.8% and 20% respectively. Covid-19 lockdowns had a negligible impact on the bank's asset quality, and we do not expect material deterioration in the current macroeconomic environment.

Figure 7: Return on average equity



Source: SNL, Scope Ratings

Figure 8 : Pre-provision profit and loan-loss provisions, EUR m

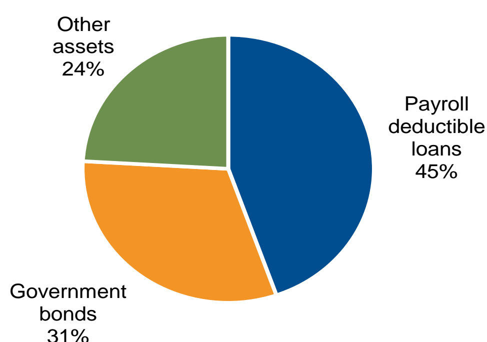


Source: SNL, Scope Ratings

While almost all loans are either CQS, CQP or DP, Italian government bonds are a large component of IBL's balance sheet, which while boosting profitability 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 Q1 2023, the group Italian government bond portfolio stood at approximately EUR 3.5bn, representing over eight times the group's CET1 capital, a very high proportion.

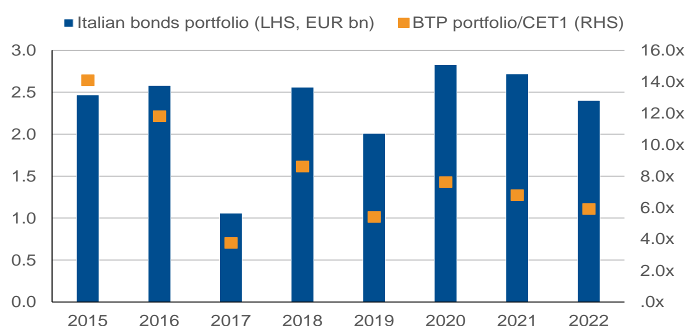
While we consider Italian government bonds to be safe assets (Scope rates Italian debt at BBB+/Stable), the large, concentrated exposure to one borrower poses a non-negligible risk. While entirely classified as held to maturity in 2020, IBL started building a fair-value portfolio in 2021, which as of Q1 2023 made up around 11% of the total. We note positively the use of hedges covering most of the portfolio accounted at fair value.

Figure 9: Total asset breakdown, YE 2022



Source: Company data, Scope Ratings

Figure 10: Total exposure to Italian sovereign debt in absolute terms and as % of transitional CET1, historical

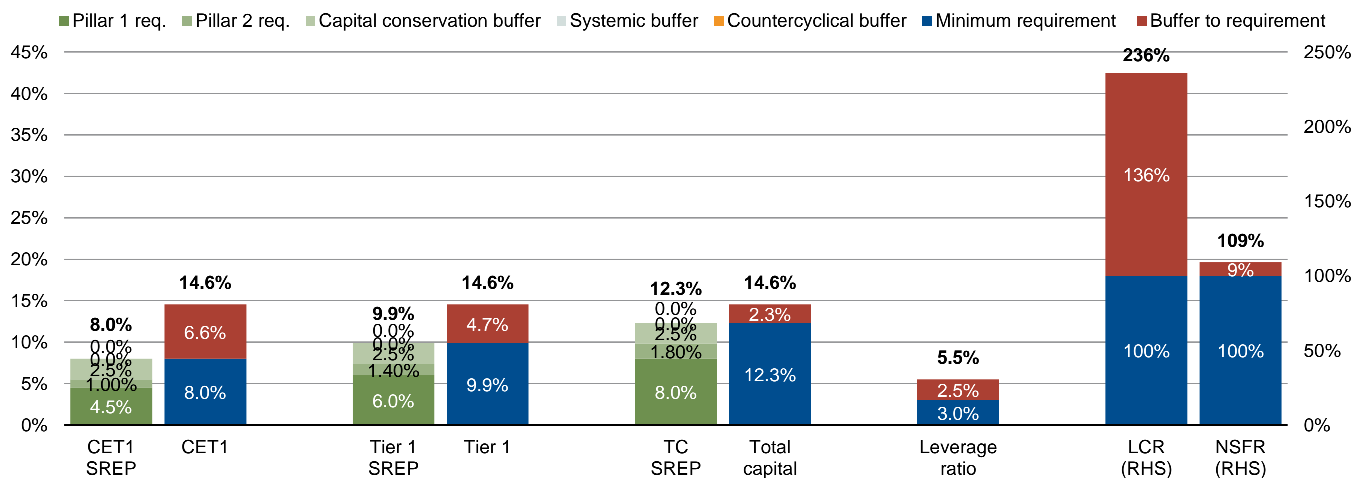


Source: Company data, Scope Ratings

Increasing reliance on customer deposits and focus on maintaining adequate buffers to capital requirements amid business growth and diversification

We assess IBL's financial viability management as 'Adequate'. This reflects our view that while funding still heavily relies on central bank funds, repos of its loans and the sovereign bond portfolio, customer deposits have been increasing, contributing to the stability of the funding profile. IBL has recently issued a Tier 2 note to maintain an adequate buffer to minimum capital requirements, which increased in 2023.

Figure 11: Financial viability dashboard – overview of positioning as of YE 2022 vs key 2023 regulatory requirements

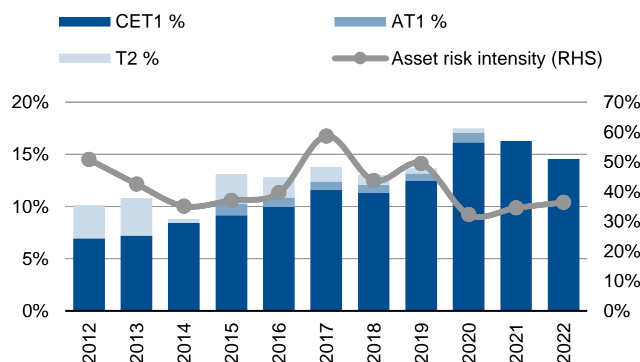


Source: Company data, SNL, Scope Ratings

Adequate buffer to minimum capital requirements

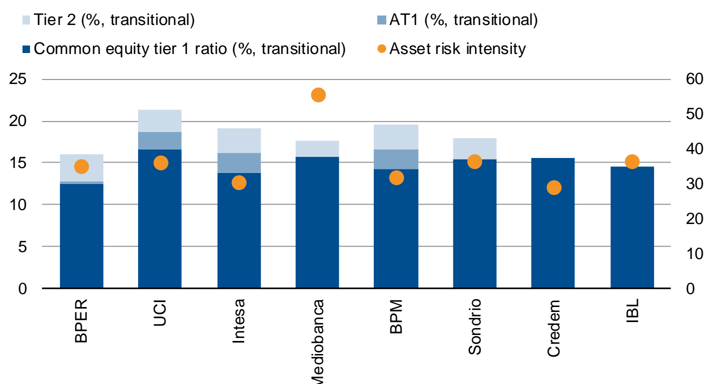
The June 2020 implementation of Capital Requirements Regulation II reduced the risk weighting of PDLs under standardised models from 75% to 35%. For IBL, this released significant capital and boosted capital ratios, resulting in a Common Equity Tier 1 (CET1) ratio of 16.1% on a transitional basis at the end of 2020 (versus 12.5% in 2019). Solvency ratios were stable throughout 2021. However, in 2022, despite the full retention of net profits, the increase in risk-weighted assets caused the CET1 ratio to decline to 14.6% at YE 2022.

Figure 12: IBL's historical capital ratios (TR) and asset risk intensity



Source: SNL, Scope Ratings

Figure 13: Capital position, IBL vs selected Italian banks, YE 2022



Source: Company data, SNL, Scope Ratings

In 2023 IBL's minimum capital requirements increased to 8% on CET1, 9.90% on Tier 1 and 12.30% on total capital. To maintain an adequate buffer to the more stringent requirement on total capital, IBL issued a EUR 65m Tier 2 note in June. The pro-forma buffer, including a higher deduction for the participation in Net Insurance, is around 300 bp.

IBL is funded by a mix of customer deposits (40%), repos (35%) and ECB funding (20%).

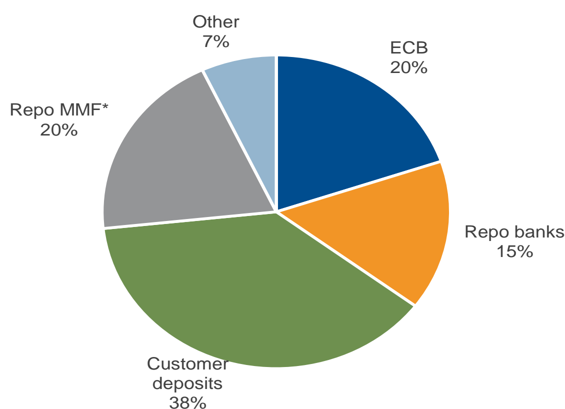
Securitisations were historically retained and used as collateral for repo operations with the Bank of Italy. ABACO eligibility, which allows loan portfolios to be posted directly as collateral with the Bank of Italy, has momentarily reduced IBL's reliance on this source of funding. However, the bank resumed issuing asset-based securities in 2023, with the aim to eventually replace TLTROs as a funding source (both on the repo market and on issued debt).

The government bond portfolio is self-funded via repos, partly bilateral and partly via central clearing. Repos have become much more expensive to refinance but remain a relatively cheap source of funding.

Moreover, as of Q1 2023 the bank retains a buffer of EUR 370m (13% of the total) of unencumbered sovereign debt as a liquidity reserve on top of around EUR 180m of funds with the central bank.

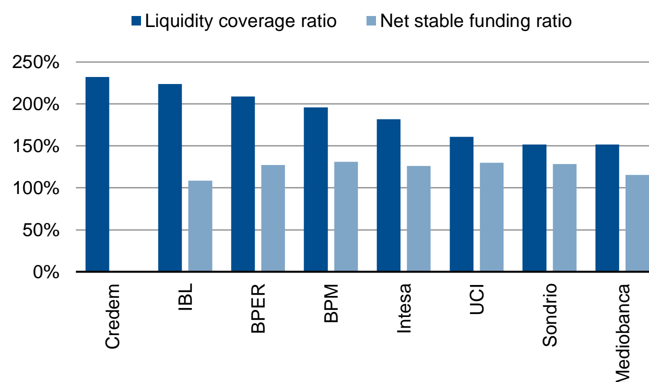
The liquidity coverage ratio in 2022 averaged 236% as, on top of TLTRO funding, the sizeable sovereign bond portfolio provides a material buffer of high-quality liquid assets. The net stable funding ratio is closer to minimum requirements at 109% at YE 2022.

Figure 14: YE 2022 direct funding breakdown



*Transactions carried out through central clearing counterparty. Source: SNL, Scope Ratings

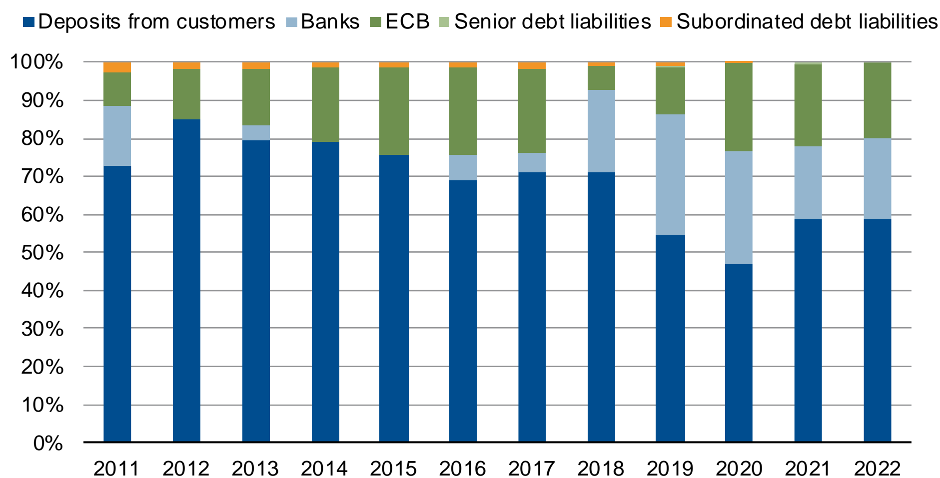
Figure 15: Liquidity coverage and net stable funding ratios, selected peer comparison, YE2022



Source: Company data, SNL, Scope Ratings

Around two-thirds of deposits are from retail customers, but the other third, from corporate and institutional customers, is quite concentrated. However, the deposit base is increasingly stable: within the overall strong growth of customer deposits (around a 12% CAGR over the last three years), term deposits have been growing strongly to represent around 50% of the total as of Q1 2023.

Figure 16: Breakdown of direct funding



Source: Company data, Scope Ratings

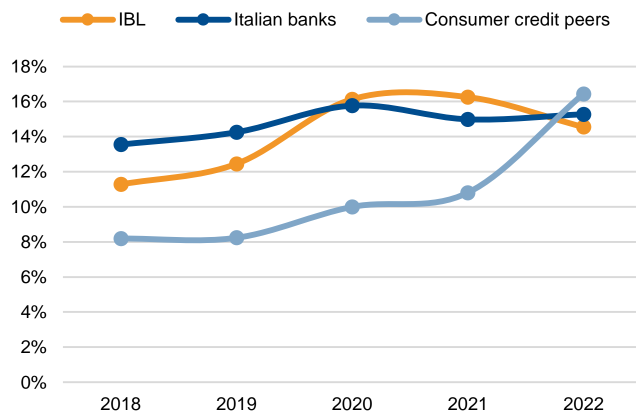
Debt ratings

Short-term debt rating

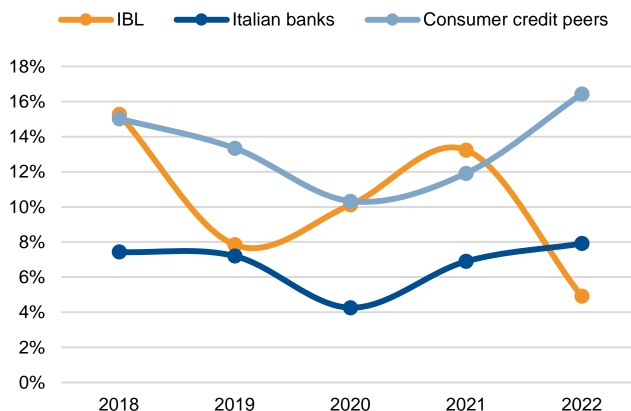
We rate short-term debt at S-2, at the higher end of the range as IBL's balance sheet is liquid and the bank can resort to central bank funding in case of market disruptions.

I. Appendix: Peer comparison

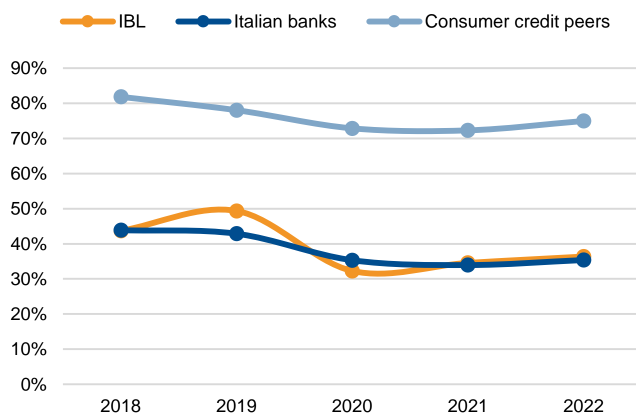
CET1 ratio (%, transitional)



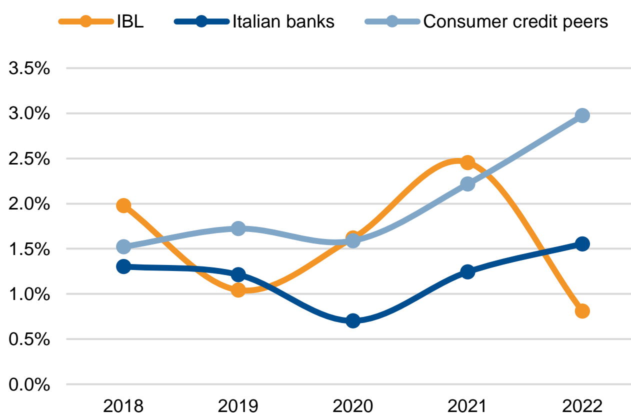
Return on average equity (%)



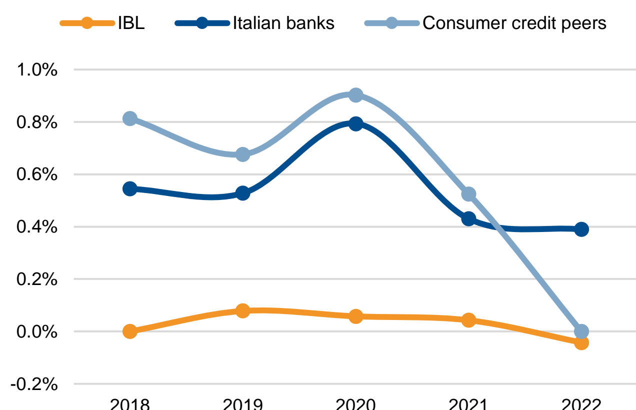
Asset risk intensity (%)



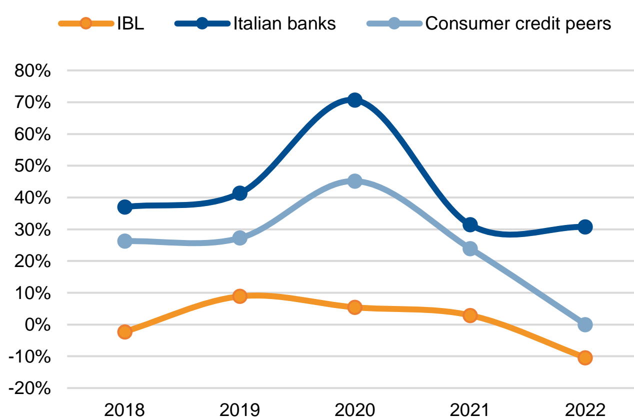
Return on average risk-weighted assets (%)



Loan loss provision/average gross loans (%)



Impairment on financial assets /pre-impairment income (%)



Source: SNL, Scope Ratings

Italian Banks: Unicredit, Intesa Sanpaolo, Banco BPM, MPS, BPER, Credem, BP Sondrio, Mediobanca

Consumer credit peers: Agos Ducato, BCC CreditoConsumo, Sella Personal Credit, Creditis Servizi Finanziari, Fiditalia, Findomestic Banca, Santander Consumer Bank SpA, Cofidis SA

II. Appendix: Selected financial information – Istituto Bancario del Lavoro SpA

	2018	2019	2020	2021	2022
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	424	459	488	405	571
Total securities	81	205	30	253	748
of which, derivatives	22	26	22	28	232
Net loans to customers	5,243	4,988	6,203	6,013	5,794
Other assets	276	383	400	451	562
Total assets	**6,023**	**6,036**	**7,121**	**7,122**	**7,675**
Liabilities					
Interbank liabilities	1,527	2,382	3,419	2,664	2,906
Senior debt	1	1	0	22	24
Derivatives	54	78	67	28	0
Deposits from customers	3,914	2,972	3,041	3,852	4,181
Subordinated debt	60	60	12	0	0
Other liabilities	123	142	138	116	136
Total liabilities	**5,678**	**5,635**	**6,678**	**6,682**	**7,248**
Ordinary equity	345	394	435	431	416
Equity hybrids	0	0	0	0	0
Minority interests	0	8	8	9	12
Total liabilities and equity	**6,023**	**6,036**	**7,121**	**7,122**	**7,675**
Core tier 1/ common equity tier 1 capital	*297*	*371*	*371*	*400*	*406*
Income statement summary (EUR m)					
Net interest income	112	104	125	141	146
Net fee & commission income	7	11	14	10	7
Net trading income	34	18	20	28	8
Other income	3	4	4	16	7
Operating income	**155**	**137**	**163**	**195**	**168**
Operating expenses	83	92	100	113	144
Pre-provision income	**72**	**45**	**63**	**82**	**24**
Credit and other financial impairments	-2	4	3	2	-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	**74**	**41**	**60**	**79**	**27**
Income from discontinued operations	0	0	0	0	0
Income tax expense	24	11	17	21	5
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	0	0	1	0	0
Net profit attributable to parent	**50**	**29**	**42**	**58**	**21**

Source: SNL, Scope Ratings

III. Appendix: Selected financial information – Istituto Bancario del Lavoro SpA

	2018	2019	2020	2021	2022
Funding and liquidity					
Net loans/ deposits (%)	134%	168%	204%	156%	139%
Liquidity coverage ratio (%)	NA	146%	195%	175%	236%
Net stable funding ratio (%)	NA	NA	NA	113%	109%
Asset mix, quality and growth					
Net loans/ assets (%)	87.0%	82.6%	87.1%	84.4%	75.5%
Problem loans/ gross customer loans (%)	1.6%	2.1%	1.8%	2.3%	0.6%
Loan loss reserves/ problem loans (%)	26.9%	24.7%	25.0%	24.4%	103.1%
Net loan growth (%)	64.9%	-4.9%	24.4%	-3.1%	-3.6%
Problem loans/ tangible equity & reserves (%)	22.5%	24.8%	24.9%	30.8%	7.4%
Asset growth (%)	43.2%	0.2%	18.0%	0.0%	7.8%
Earnings and profitability					
Net interest margin (%)	2.3%	1.8%	2.0%	2.1%	2.1%
Net interest income/ average RWAs (%)	4.4%	3.7%	4.7%	5.9%	5.6%
Net interest income/ operating income (%)	72.2%	75.8%	76.9%	72.2%	86.8%
Net fees & commissions/ operating income (%)	4.4%	7.8%	8.9%	5.2%	4.3%
Cost/ income ratio (%)	53.4%	67.4%	61.4%	58.1%	85.7%
Operating expenses/ average RWAs (%)	3.3%	3.3%	3.8%	4.8%	5.5%
Pre-impairment operating profit/ average RWAs (%)	2.8%	1.6%	2.4%	3.4%	0.9%
Impairment on financial assets / pre-impairment income (%)	-2.3%	8.9%	5.4%	2.9%	-10.5%
Loan loss provision/ average gross loans (%)	NA	0.1%	0.1%	0.0%	0.0%
Pre-tax profit/ average RWAs (%)	2.9%	1.4%	2.3%	3.3%	1.0%
Return on average assets (%)	1.0%	0.5%	0.6%	0.8%	0.3%
Return on average RWAs (%)	2.0%	1.0%	1.6%	2.5%	0.8%
Return on average equity (%)	15.3%	7.8%	10.1%	13.2%	4.9%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	12.3%	15.9%	16.0%	NA
Common equity tier 1 ratio (%, transitional)	11.3%	12.5%	16.1%	16.3%	14.6%
Tier 1 capital ratio (%, transitional)	12.1%	13.2%	17.0%	16.3%	14.6%
Total capital ratio (%, transitional)	13.0%	13.7%	17.5%	16.3%	14.6%
Leverage ratio (%)	5.1%	6.4%	5.4%	5.6%	5.5%
Asset risk intensity (RWAs/ total assets, %)	43.7%	49.4%	32.3%	34.6%	36.4%
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

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Frankfurt am Main

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

Phone +49 69 66 77 389 0

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 62 89 35 12

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 09 38 35

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 2078245180

info@scoperatings.com
www.scoperatings.com

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