Iccrea Cooperative Banking Group successfully passed ECB Comprehensive Assessment.

Capital levels above the minimum thresholds and no capital gaps, even in particularly conservative scenarios:

- Group CET1 ratio equal to 12.3% in the “baseline” scenario (overall impact of 322 bps) above the minimum solvency threshold of 8%;
- Group CET1 ratio of 5.7% in an “adverse” scenario (overall impact of 983 bps) above the minimum solvency threshold of 5.5%.

In only three years, from December 2017 to December 2020, the stock of the Group’s NPLs (from € 17.5 to € 8.4 billion), the gross NPL ratio (from 18.9% to 9.1%) and the net NPL ratio (from 11.1% to 4.3%) were cut by half, and the level of NPL coverage increased (from 45.7% to 55.7%).

As of 31 March, 2021, the CET1 ratio was over 16.3% and the TCR over 17%, a further improvement compared to the values of the same period for 2020 and 2019.

Rome, 9 July 2021

Following the Comprehensive Assessment, launched on February 2020 by the European Central Bank (ECB), thereafter suspended due to the Covid-19 emergency and finally resumed in August 2020, the overall CET1 ratio of the Iccrea Cooperative Banking Group was equal to 12.3% in the “Baseline” scenario and to 5.7% in the “Adverse” scenario, resulting above the required minimum solvency levels of 8% and 5.5%, respectively, confirming the resilience and the quality of the Group’s evaluation and management processes as well as the absence of capital gaps.

The Comprehensive Assessment, including the Asset Quality Review (AQR) and a Stress Test, was conducted starting from the consolidated financial statements as of 31 December, 2019 of the GBCI, through three macro-phases:

1) Asset Quality Review (AQR);
2) Stress Test over a three-year period (2020-2022), at the occurrence of two different prospective macro-economic scenarios, “Baseline” and “Adverse”;
3) Join-up of the results of the AQR on the Stress Test.

Due to the context of deep uncertainty engendered by the pandemic, consistently with the conservative exercise, the Group continued to implement a very prudential credit asset management policy, increasing the coverage of non-performing assets (as of 2020, 55.7%) by about 5 percentage points compared to the previous year (50.9%), and by about 10 percentage points in the last 3 years (45.7%).

At the same time, the intense de-risking program, continued in 2020 with the sale of non-performing assets of approximately € 2 billion, allowed the stock of NPLs (from € 17.5 B to € 8.4 billion), the gross NPL ratio (from 18.9% to 9.1%) and the net NPL ratio (from 11.1% to 4.3%) to be cut by half over just three years, from December 2017 to December 2020.

As of 31 March, 2021, the CET1 ratio was over 16.3% and the TCR over 17%, a further improvement compared to the values of the same period for 2020 and 2019.

Main AQR findings

The analysis was conducted on the “Large SME”, “Retail SME” and “Residential Real Estate” credit portfolios as of 31 December 2019. Overall, the result of the AQR amounts to € 1,683 million of adjustments to provisions, deriving from the following evidence:

- € 93 million related to the “Credit File Review & Collateral Valuation” (CFR);
- € 142 million related to the “Projection of Findings”, namely, a projection of the results of the CFR for the “Large SME” portfolio;
- € 1,448 million related to the “Collective Provision Analysis”, or the calibration of collective adjustments, of which € 382 million on the “Residential Real Estate” portfolio, € 898 million on the “Retail SME” portfolio, and € 168 million on the “Large SME” portfolio, mainly due to conservative adjustments made on PD and LGD parameters.

Overall, also considering the phase-in of transitional adjustments, the impact of the AQR on the Group’s CET1 ratio in 2019 is around -162 bps, of which -145 bps attributable to adjustments to provisions (net of taxes and any prudential filters), and -17 bps attributable to an increase in risk-weighted assets (RWA).

Main Stress Test evidence

Consistent with the context of deep uncertainty related to the evolution of the Covid-19 emergency, the Stress Test was based on conservative assumptions and utmost prudence, considering the scenario defined by the EBA, i.e., among others, a reduction of the 2019 Italian GDP for the first year by 13% in the “Adverse” scenario, and by 9% in the “Baseline” scenario (the EBA stress test exercise launched in 2021 for Significant Banks was based on a 2020 GDP reduction by 0.7% in the “Adverse” scenario, and on a growth by 3.5% in the “Baseline” scenario), as well as taking into account the support measures defined in the prudential regulation (e.g., “Quick-Fix”) and at governmental level (use of the State Guarantee - “Public Guarantee Scheme”).

The Stress Test showed an impact on the Group’s CET1 ratio of:

- -118 bps in the “Baseline” scenario, with a reduction from 15.5% in 2019 to 14.3% in 2022;
- -713 bps in the “Adverse” scenario, with a reduction from 15.5% in 2019 to 8.4% in 2022;

Finally, the Join-up determines a further impact on the Group’s CET1 ratio of -42 bps in the “Baseline” scenario, and -107 bps in the “Adverse” scenario.

Mauro Pastore, General Manager of Parent Company Iccrea Banca, commented: "I am satisfied with the positive outcome of an extremely rigorous exercise successfully conducted with the ECB, which confirms the solidity of the Group also in the current macro-economic framework and in the context of uncertainty about the future. This is even more comforting if we consider that the exercise was conducted including the negative forecast peak of 2020, which is an extraordinary year, unlike the Stress Test launched this year for other Significant banks, and in which this peak will not be included".

"The Group is working on a fifth NPL securitization (GACSV) and a UTP sales in 2021", added Pastore, "maintaining, at the same time, great prudence in the provisioning policy, in conjunction with an improving macro-economic framework and the positive unfolding of the effects resulting from government measures. This strategy will allow the accumulation of substantial new resilience buffers for 2022, when the terms for suspension of payments granted to customers will expire. The 2020 initiatives and those already launched in 2021 will allow the Group to take into account the results of the AQR"'.

"Therefore, the good outcome of the exercise is doubly important", concluded Pastore, "also considering the recent establishment of the Group and the complex process undertaken jointly with BCCs, which, in recent years, has made possible to combine positive economic results with risk management and capital solidity, making the ultimate goal of our mission sustainable over time, namely support shareholders and local communities".

The Iccrea Cooperative Banking Group is the largest Italian cooperative banking group, with wholly Italian capital, and comprises 130 Cooperative Credit Banks together with other banking, financial and instrumental companies controlled by Iccrea Banca. The Iccrea Group is the third Italian banking group by number of branches, 2,529 in over 1,700 Italian municipalities, and the fourth by assets, with over 169 billion Euro. The Group also boasts 92.8 billion Euro of gross loans and total deposits (direct and indirect) of approximately 140 billion Euro, with more than 3 million customers and 824,000 members. The Group has a CET 1 Ratio of 16.7% and a TCR of 17.5% (data as of 31 December 2020).

Press releases and documentation relating to the results of the Comprehensive Assessment are available on the ECB websites: https://www.ecb.europa.eu/

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