

Rating Action: Moody's downgrades MedioCredito Centrale to Baa3/P-3/D- from A3/P-2/C-; outlook negative

Global Credit Research - 26 Mar 2012

Milan, March 26, 2012 -- Moody's Investors Service has today downgraded the standalone bank financial strength rating (BFSR) of Banca del Mezzogiorno - MedioCredito Centrale SpA (MCC) to D- from C- and the long-term and short-term deposit ratings to Baa3/Prime-3 from A3/Prime-2. All ratings have a negative outlook.

Today's rating actions conclude the review for downgrade of MCC's ratings initiated in December 2010, when Unicredit SpA announced the sale of its subsidiary MCC to Poste Italiane (rated A3/P-2/negative outlook), which was concluded in August 2011. The bank finalised its business plan and communicated its new strategy within the Poste Italiane group in December 2011.

With the 100% acquisition of MCC, Poste Italiane is implementing the project initiated by the Italian Ministry of Economy and Finance, under which MCC is the vehicle for providing lending and guarantees to SMEs in the less developed regions of Southern Italy, while continuing its historical activity as provider of government-subsidised funding schemes to SMEs.

RATINGS RATIONALE

Moody's downgraded the ratings of MCC to Baa3/P-3/D-, reflecting the bank's substantially altered risk profile stemming from its new strategy and business model and the required transformational reorganisation, while at the same time incorporating the new ownership structure. This rating action is independent from the ongoing wider review for downgrade of many Italian banks' ratings, which is instead driven by other factors, such as the rising challenges in the operating environment and the recent downgrade of the Italian government to A3.

RATIONALE FOR THE BFSR DOWNGRADE

MCC's revised D- standalone BFSR -- mapping to Ba3 (from Baa2 previously) on the long-term scale -- reflects its modest and developing franchise in its targeted areas of SME lending activities especially in the South of Italy. It also reflects MCC's weak current and expected profitability and efficiency, and Moody's concern about the longer-term sustainability of the business model in the absence of parental support. This concern stems from Moody's view that MCC has a lack of a track record and risk management experience in loans underwriting to the SME segment in the riskier South of Italy, while at the same time targeting exponential growth of its loan exposures. Furthermore, some execution risk remains with regard to the successful implementation of the new business model. Moody's notes that MCC's currently good liquidity and capitalisation provide some buffers, but are expected to diminish in the medium-term as the new activities of the bank develop.

RATIONALE FOR THE LONG AND SHORT-TERM DEPOSIT RATINGS

The downgrade of MCC's deposit ratings to Baa3/P-3 follows the downgrade of the standalone BFSR. The deposit ratings are underpinned by Moody's expectation of a high probability of parental support, resulting in a three-notch uplift from its Ba3 standalone rating.

Moody's believes that Poste Italiane's full ownership of MCC and the support that the parent provides represent important factors in the current ratings level. Given Poste Italiane's relatively sound track record of creating subsidiaries and providing support, Moody's factors into the current ratings a high likelihood that the parent will provide capital, funding and operational support in case of need. In addition, MCC will benefit from the parent's brand recognition and large distribution network and customer base to sustain primarily its funding franchise, and to some degree also its lending activities.

RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook on the ratings reflects (i) the negative outlook on the ratings of Poste Italiane; and (ii) the uncertainties with regards to the successful implementation of MCC's new activities and to its capacity to provide a sustainable business model, with an adequate profitability and risk profile, and sufficient capitalisation.

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Rome, Italy, MCC reported total consolidated assets of EUR887.5 million at December 2011.

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