

March 5, 2012

Research Update:

**Italian Bank MedioCredito Centrale,
Subsidiary Of Poste Italiane,
Downgraded To 'BBB-/A-3';
Outlook Negative**

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Research Update:

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Overview

- Following a review under our bank criteria and group methodology, we are lowering our long- and short-term ratings on Italy-based MedioCredito Centrale SpA (MedioCredito) to 'BBB-/A-3' from 'BBB+/A-2' and removed them from CreditWatch negative.
- The ratings on MedioCredito reflect the 'bbb' anchor we apply to banks operating in Italy, and our view of the bank's weak business position, strong capital and earning, moderate risk position, average funding, and adequate liquidity.
- The ratings also reflect our view that MedioCredito is a strategic subsidiary of Poste Italiane Group, and our opinion that there is a moderate likelihood of the bank receiving timely extraordinary support from the Italian Government if needed.
- The negative outlook on MedioCredito mirrors that on its parent company, Poste Italiane, and our view that the deterioration in Italy's economy and banking industry could weaken the bank's asset quality and capital beyond what we anticipate in our baseline forecast.

Rating Action

On March 5, 2012, Standard & Poor's Rating Services lowered its long- and short-term counterparty credit ratings on Italy-based MedioCredito Centrale SpA (MedioCredito) to 'BBB-/A-3' from 'BBB+/A-2'. At the same time, we removed the ratings from CreditWatch, where we placed them with negative implications on Dec. 7, 2011.

Rationale

The downgrade follows the recent review of our assessment of MedioCredito's stand-alone credit profile (SACP) and the degree of support it could receive) from its parent, Italy's postal agency Poste Italiane Group (BBB+/Negative/A-2). We assess MedioCredito's SACP at 'bb+'. In addition, the ratings reflect our view that there is a "moderate" likelihood that the Republic of Italy (BBB+/Negative/A-2) would provide timely extraordinary support to MedioCredito if needed.

Our long-term rating on MedioCredito benefits from one notch of uplift over its SACP, reflecting our view the bank is a strategic subsidiary of Poste Italiane SpA. In our opinion, MedioCredito will likely use its parent brand,

full ownership, and strong distribution network and customer base to sustain its new lending operations and place its own bonds on the market. As a result, the long-term rating on MedioCredito factors in our view that Poste Italiane will provide extraordinary capital, funding, and operational support in case of need. In addition, a material deterioration of MedioCredito's creditworthiness would potentially affect Poste Italiane's strong reputation in Italy.

We expect Poste Italiane to maintain full ownership of the bank and believe it will not likely sell it in the near term. We acknowledge that Poste Italiane has a good track record of setting up subsidiaries and providing full support over time, as occurred for instance with Poste Vita SpA (not rated), the life insurance business created in 1999, which became one of the largest players in the industry. At the same time, we believe MedioCredito will operate in lines of business that we view as important--albeit not integral--for the parent's strategy. Being a start-up company, we see some uncertainties about MedioCredito's business development and future strategic importance for its parent company.

The ratings on MedioCredito also reflect the 'bbb' anchor that we apply to Italian banks, and our view of MedioCredito's "weak" business position, "strong" capital and earnings, "moderate" risk position, "average" funding, and "adequate" liquidity.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The 'bbb' anchor for MedioCredito draws on our view of the economic risk and industry risk in Italy--which we both assess at '4'--where the bank mostly operates.

In our opinion, the bank's business position is "weak." This reflects our view of the bank's small size, limited business diversification, and uncertainties about its future business development compared with the banking industry average. Partially offsetting these constraints are the very large post office network in Southern Italy that MedioCredito can tap, its well-known brand in Italy, and its mandate to manage the "Fundo Centrale di Garanzia"--the Italian government's vehicle for providing counter-guarantees on loans from Italian banks to domestic SMEs. MedioCredito is a start-up company, designed by its parent to provide loans and guarantees on loans to SMEs in Southern Italy. The bank has just started selling its products through a network of dedicated post offices in the region. We view MedioCredito as a new player in the regional SME lending business, with a very limited track record and potentially limited market share and volume. That said, the bank's mandate to manage the "Fondo Centrale di Garanzia" should provide a relatively stable business volume.

We assess the bank's capital and earnings as "strong." We anticipate that MedioCredito's risk-adjusted capital (RAC) ratio will remain above 10% over the next three years. The bank started its operations with €138 million of

total adjusted capital, which we understand should be sufficient to sustain its lending expansion in its first years of activity. Our assessment factors in our view that Poste Italiane will continue to support MedioCredito's capital and, therefore, its business expansion. We have little visibility on the bank's profitability going forward, owing to the uncertainties facing MedioCredito's lending business to SMEs in Southern Italy. That said, we believe MedioCredito can rely on the relatively stable fees it receives from the "Fondo Centrale di Garanzia," but this would not be sufficient to make the bank profitable.

In our opinion, the bank's risk position is "moderate." Our assessment balances our view that the RAC does not fully capture the potential for higher credit risk in Southern Italy than the domestic average, with our expectation that MedioCredito will enjoy a gradual loan expansion over the next few years as the bank builds up its underwriting expertise. In addition, we expect the bank to frequently use risk-mitigating tools. We believe the bank will maintain good single-name and sector diversification, although we think it likely that its business will remain concentrated on lending to SMEs in Southern Italy.

We assess MedioCredito's funding position as "average," reflecting our opinion that the bank will have strong access to Poste Italiane's deep network of post offices (over 4,000 just in Southern Italy) and customer base to distribute its bonds. Our assessment factors in our view that Poste Italiane will provide some funding, primarily through credit facilities, to support MedioCredito's additional funding needs. We understand that MedioCredito will initially rely on its outstanding long-dated bond portfolio to finance its loan portfolio. In addition, we consider the bank's liquidity as "adequate," considering its positive liquidity position owing to its existing large securities portfolio.

We consider MedioCredito to be a government-related entity (GRE). In accordance with our criteria for GREs, we base our view of a "moderate" likelihood of extraordinary government support on our assessment of MedioCredito's:

- "Limited" role for Italy. MedioCredito is a profit-seeking bank in a low competitive environment, and will only indirectly play a public role in supporting Southern Italy's economic development; and
- "Strong" link with the Italian government. MedioCredito is fully owned by government-owned Poste Italiane, which effectively drives its strategy and operations and will eventually provide support in case of need. Owing to the "strong" link between Poste Italiane and the Italian government, however, we believe a default of MedioCredito could indirectly affect the government's reputation.

As a result, the long-term rating on MedioCredito does not currently factor in any notch of support related to potential support from the Italian government.

Outlook

The negative outlook on MedioCredito mirrors that on Poste Italiane. Should we further downgrade Italy, we would lower our ratings on Poste Italiane. The outlook also reflects our view that the deteriorating and competitive environment in Italy could affect the bank's asset quality and capital more than we currently anticipate in our baseline forecast.

Our base-case scenario for MedioCredito assumes the bank will gradually develop its lending business over the next two years, and maintain a RAC ratio above 10% throughout the business plan period (2012-2016). We also assume that credit risk will remain strictly controlled over the coming years, and that MedioCredito's funding profile will remain "average" and its liquidity "adequate."

We could lower our ratings on MedioCredito if we lower our ratings on Poste Italiane and we believe the bank's stand-alone creditworthiness does not improve. We could also lower our ratings on MedioCredito if we perceive that its SACP has deteriorated and that Poste Italiane's or the Italian government's willingness and ability to provide timely extraordinary support to MedioCredito Centrale has not strengthened.

An outlook revision to stable on Italy would likely lead to a similar rating action on Poste Italiane and its subsidiaries.

Ratings Score Snapshot

Issuer Credit Rating	BBB-
Holding Company Rating	BBB+
SACP	bb+
Anchor	bbb
Business Position	Weak (-2)
Capital and Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)
Support	+1
GRE Support	0
Group Support	+1
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct 28, 2004
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Italy's Unsolicited Ratings Lowered To 'BBB+/A-2'; Outlook Negative, Jan. 13, 2012
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
MedioCredito Centrale SpA		
Counterparty Credit Rating	BBB-/Negative/A-3	BBB+/Watch Neg/A-2
Certificate Of Deposit	BBB-/A-3	BBB+/Watch Neg/A-2

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