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Research Update:

MedioCredito Centrale Ratings Lowered To 'BB+/B' On Heightened Economic And Industry Risks In Italy; Outlook Negative

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

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Overview

- In our opinion, MedioCredito Centrale SpA's (MedioCredito) financial profile is exposed to the heightened economic and industry risks we now see for banks operating in Italy.
- We are therefore lowering our long- and short-term counterparty credit ratings on MedioCredito to 'BB+/B' from 'BBB-/A-3' and removing them from CreditWatch, where they were placed with negative implications on July 12.
- The negative outlook reflects the possibility that we could lower the ratings on MedioCredito if we lowered the long-term rating on Italy and on MedioCredito's parent, Poste Italiane, or if we anticipated that the economic and/or operating conditions in which Italian banks operate would deteriorate further or expected a weakening of MedioCredito's capital position.

Rating Action

On July 24, 2013, Standard & Poor's Ratings Services lowered to 'BB+/B' from 'BBB-/A-3' its long- and short-term counterparty credit ratings on Italy-based MedioCredito Centrale SpA (MedioCredito). At the same time, we removed the ratings from CreditWatch with negative implications, where we placed them on July 12, 2013. The outlook is negative.

Rationale

The lowering of our ratings on MedioCredito reflects our view of increased economic and industry risks for Italian financial institutions.

Because of the increased economic risks we see for Italian banks, we believe the Italian banking sector is now more exposed to a deeper and longer recession than we had previously anticipated. In addition, we believe that Italian banks face increased industry risks as a result of a higher cost of funding than most other banking markets in the European Economic and Monetary Union (EMU or eurozone), which could limit Italian banks' access to capital market financing.

As a result of these factors, we have revised down our anchor--the starting point for assigning a bank a long-term rating--for banks operating

predominantly in Italy (including MedioCredito) to 'bbb-' from 'bbb'. As a result, we have lowered our stand-alone credit profile (SACP) on MedioCredito to 'bb' from 'bb+' and, consequently, our long- and short-term counterparty credit ratings to 'BB+/B' from 'BBB-/A-3'. Our long-term rating on MedioCredito continues to benefit from one notch of uplift over its SACP, reflecting our view that MedioCredito is a strategic subsidiary of Poste Italiane.

Our assessment of MedioCredito's business profile, risk position, and funding and liquidity position remains unchanged. Despite the negative impact on MedioCredito's capital position of our view of heightened economic risk in Italy, and of the recent lowering of the long-term sovereign credit rating on Italy, our assessment of MedioCredito's capital and earnings is also unchanged. We expect MedioCredito's parent, Poste Italiane, will provide sufficient capital support to sustain MedioCredito's planned business development and to maintain solvency levels in line with our current "strong" capital assessment for MedioCredito. We thus expect our projected RAC ratio before diversification adjustments will likely be between 14%-15% over the next 18-24 months.

We consider MedioCredito to be a government-related entity (GRE). In accordance with our criteria for GRES, we believe there is a "moderate" likelihood of extraordinary government support based on our assessment of MedioCredito's "limited" role for Italy and "strong" link with the Italian government. According to our GRE methodology, we look at the combination of the bank SACP and the government local currency rating, in relation to our view of the likelihood of extraordinary support, in determining a GRE's issuer credit rating. As a result, at the current level of the bank SACP ('bb') and the sovereign credit rating (BBB/Negative/A-2), we do not incorporate into the long-term rating on MedioCredito any uplift related to potential support from the Italian government.

Outlook

The negative outlook on MedioCredito mirrors that on its parent, Poste Italiane. Should we further lower the long-term sovereign credit rating, we would likely lower our ratings on Poste Italiane and therefore on MedioCredito.

The outlook also reflects our view that the deteriorating and competitive environment in Italy could affect MedioCredito's asset quality and capital more than we currently anticipate in our baseline forecast.

Our base-case scenario for MedioCredito assumes that it will gradually develop its lending business over the next three years, and receive sufficient capital from its parent to sustain such a growth. This would, in our view, allow MedioCredito to maintain a risk-adjusted capital (RAC) ratio above 10% over the next three years. We also assume that credit risk will remain strictly controlled over the coming years, that MedioCredito's funding will be

Research Update: MedioCredito Centrale Ratings Lowered To 'BB+/B' On Heightened Economic And Industry Risks In Italy; Outlook Negative

sustained by its access to Poste Italiane's extensive network of Post Offices and customer base, and that liquidity will remain "adequate".

We could lower our ratings on MedioCredito if we lowered our ratings on Poste Italiane and we believed MedioCredito's stand-alone creditworthiness was not improving. We could also lower our ratings on MedioCredito if we perceived that its SACP had deteriorated and that Poste Italiane's, or the Italian government's, willingness and ability to provide timely extraordinary support to MedioCredito had not strengthened.

We do not currently expect to revise the outlook on MedioCredito to stable. However, we could do so if we also revised that on the long-term ratings on Italy and on Poste Italiane to stable and if we anticipated that downside risks to the economic and operating environment in Italy were likely to abate.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BB+/Negative/B	BBB-/Watch Neg/A-3
SACP	bb	bb+
Anchor	bbb-	bbb
Business Position	Weak (-2)	Weak (-2)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Moderate(-1)	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+1	+1
GRE Support	0	0
Group Support	+1	+1
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria And Research

- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Research Update: MedioCredito Centrale Ratings Lowered To 'BB+/B' On Heightened Economic And Industry Risks In Italy; Outlook Negative

- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
MedioCredito Centrale SpA Counterparty Credit Rating	BB+/Negative/B	BBB-/Watch Neg/A-3

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