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## Research Update:

# Italy-Based Bank MedioCredito Centrale Rating Lowered To 'BB' And Placed On CreditWatch Negative

### Primary Credit Analyst:

Regina Argenio, Milan (39) 02-72111-208; [regina.argenio@standardandpoors.com](mailto:regina.argenio@standardandpoors.com)

### Secondary Contact:

Luigi Motti, Madrid (34) 91-788-7234; [luigi.motti@standardandpoors.com](mailto:luigi.motti@standardandpoors.com)

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## Overview

- In our view, economic prospects in Italy are likely to be weaker than we had previously anticipated and weak overall in the next couple of years. We believe this will likely continue to dampen Italian banks' asset quality and profitability, and, specifically, lead to high credit losses in the Italian banking system over the next two years significantly exceeding our previous expectations.
- In our opinion, MedioCredito Centrale's (MCC) credit risk profile has been weakened by the heightened economic risks we now see for banks operating in Italy. We are therefore lowering our long-term counterparty credit ratings on MCC to 'BB' from 'BB+'.
- The Italian ministry of finance has recently stated publicly that MCC's parent company, Poste Italiane, is considering selling its stake in MCC. Further to this, we are placing our rating on MCC on CreditWatch negative.
- The CreditWatch placement indicates that we could lower the long-term rating on MCC if we perceive that Poste Italiane's commitment to MCC has diminished and/or if we conclude that a lack of clarity regarding MCC's role within Poste Italiane affects MCC's financial and business profile.

## Rating Action

On Dec. 18, 2014, Standard & Poor's Ratings Services lowered its long-term rating on Italy-based MedioCredito Centrale SpA (MCC) to 'BB' from 'BB+'. At the same time, we placed our rating on CreditWatch with negative implications and affirmed the 'B' short-term rating.

## Rationale

The downgrade of MCC reflects our view that its credit risk profile has been weakened by heightened economic risks in Italy.

Persistently weak economic conditions in Italy are likely, in our opinion, to continue to undermine the creditworthiness of the private sector and, consequently, banks' asset quality and profitability prospects. We therefore believe that Italian banks' credit losses will likely be high over the next couple of years, significantly exceeding our previous expectations, and that they will start to normalize only in the medium-to-long term. In this context, our expectations for losses in the banks' credit portfolios are affected by

our view that problematic assets will likely continue to grow and credit recovery processes will remain long. We forecast that cumulative credit losses for the Italian banking sector will account for about 4.0%-4.5% of total loans in 2014-2016, with peak losses of about 1.5%-1.8% on average in both 2014 and 2015, with a gradual decline from 2016.

We therefore consider that the likely impact of the ongoing economic correction on the Italian banking system will be more severe than anticipated, reflecting higher economic risk for Italian banks than previously.

As a result of the heightened economic risks we now see in the domestic environment for Italian banks, we have revised down the anchor--the starting point for assigning a bank a long-term rating--we typically use for banks operating primarily in Italy, including MCC, to 'bb+' from 'bbb-'.

The lowering of the anchor has led us to revise down our assessment of MCC's stand-alone credit profile (SACP) to 'bb-' from 'bb', and consequently, we have lowered our counterparty credit rating on MCC to 'BB' from 'BB+'.

Although the increased economic risk we see in Italy has had a negative impact on our view of MCC's capital position, we continue to assess MCC's capital and earnings as "strong." This is primarily because MCC successfully completed a €230 million capital increase in February 2014. In our view, this capital injection will likely provide MCC with a buffer sufficient to absorb the impact of higher credit losses and support the expansion of its business while preserving its capitalization at a level consistent with our current assessment. We expect that MCC's risk-adjusted capital (RAC) ratio will improve to 12%-13% in the next 24 months from a pro forma (calculated with current sovereign and BICRA parameters) of 9.5% as of December 2013.

We have also not changed our assessment of MCC's risk position. We currently consider MCC to have a moderate likelihood of extraordinary government support, in line with our government-related entity methodology. However, because its SACP is currently 'bb-' and our rating on Italy is 'BBB-', we do not incorporate into our rating on MCC any uplift for potential support from the Italian government.

We currently incorporate one notch of group support from Poste Italiane into our rating on MCC, reflecting our view that MCC is of moderately strategic importance to its parent.

## **CreditWatch**

The CreditWatch placement indicates that we could lower our long-term rating on MCC if we perceive that Poste Italiane's commitment to MCC has diminished and/or if we conclude that a lack of clarity regarding MCC's role within Poste Italiane affects MCC's funding, liquidity, and business profiles.

On Nov. 19, 2014, the Italian ministry of finance declared that Poste Italiane was evaluating the potential sale of its stake in MCC to the government agency

Invitalia. If we considered that the likelihood of this sale occurring had increased, it could affect our view of the parent's commitment to provide extraordinary support to MCC in case of need.

We expect that, in the absence of an alternative and credible funding plan, a diminished commitment from Poste Italiane could negatively impact our view of MCC's funding and liquidity profile, as well as its ability to continue with the planned business expansion. We understand that MCC has temporarily increased its exposure to European Central Bank (ECB) funding to support its new business. EBC funding accounted for about 50% of its stable funding needs at June 2014. Poste Italiane provides MCC with €300 million of loans and we currently factor into our rating our expectation that the bank will have access to Poste's extensive network of post offices and customer base to distribute its bonds. In our opinion, MCC's access to Poste Italiane's network is a crucial part of its funding strategy.

We could lower our rating on MCC if we conclude that Poste Italiane's intentions with regard to the disposal of MCC have been confirmed or, in case the sale materializes, if we consider the new shareholder unlikely to provide financial support to MCC similar to the level the Poste group currently offers. In the latter case, we would evaluate the creditworthiness of the new parent and the likelihood that MCC could receive extraordinary government support.

We could also lower the rating if we conclude that the current lack of certainty regarding the possibility that Poste Italiane might dispose of MCC could affect MCC's funding and liquidity profile, or its ability to continue to develop its business.

We could affirm the rating if we see that Poste Italiane remains committed to providing strong ongoing and future support to MCC. If the sale materializes, we could affirm the rating if we consider MCC's new shareholder willing and able to provide MCC with enough financial support to adequately support MCC's financial and business profiles.

## **Ratings Score Snapshot**

	To	From
Issuer Credit Rating	BB/Watch Neg/B	BB+/Negative/B
SACP	bb-	bb
Anchor	bb+	bbb-
Business Position	Weak (-2)	Weak (-2)
Capital And Earnings	Strong (+1)	Strong (+1)
Risk Position	Moderate (-1)	Moderate (-1)
Funding	Average (0)	Average (0)
Liquidity	Adequate	Adequate
Support	+1	+1

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GRE Support	0	0
Group Support	+1	+1
Sovereign Support	0	0
Additional Factors	0	0

## Related Criteria And Research

### Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Sept. 18, 2014
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- Ratings On Italian Banks Lowered On Rising Economic Risk And Sovereign Downgrade, Dec. 18, 2014
- Ratings On Italy Lowered To 'BBB-/A-3'; Outlook Stable, Dec. 5, 2014

## Ratings List

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed	To	From
MedioCredito Centrale SpA Counterparty Credit Rating	BB/Watch Neg/B	BB+/Negative/B

### Additional Contact:

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm

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(46) 8-440-5914; or Moscow 7 (495) 783-4009.

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