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Research Update:

Italy-Based MedioCredito Centrale 'BB' Rating Affirmed On Continuing Group Support; Outlook Negative

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Overview

- We understand that discussions between MedioCredito Centrale's (MC) current shareholder, Poste Italiane SpA (Poste), and the Italian government agency Invitalia regarding a potential change of ownership have been terminated.
- In our view, a disposal of MC is unlikely in the near term and we expect Poste will likely remain committed to providing extraordinary support to MC if needed.
- We are therefore affirming our 'BB' rating on MC and removing the rating from CreditWatch negative, where it was placed on Dec. 18, 2014.
- The negative outlook mainly indicates that we could lower the long-term rating on MC if we perceive that Poste's commitment to MC has diminished.

Rating Action

On July 30, 2015, Standard & Poor's Ratings Services affirmed its 'BB/B' long- and short-term counterparty credit ratings on Italian bank Mediocredito Centrale SpA (MC). The outlook is negative.

At the same time, we removed the long-term rating from CreditWatch with negative implications, where it was placed on Dec. 18, 2014.

Rationale

The affirmation reflects our belief that a disposal of MC is unlikely in the near term, as discussions about a potential sale of Poste's stake in MC to Invitalia ended without a deal. We now expect that Poste will likely remain committed to sustaining MC's funding and liquidity profile and will likely continue to provide extraordinary support to MC, if needed.

MC has recently released a new business plan for the 2015-2017 period. According to the plan, MC will:

- Increase commercial synergies with the Poste network;
- Enlarge its product mix, offering short-term corporate loans and consumer finance lending; and
- Expand its business volume by about €1.2 billion.

We anticipate that MC's capitalization will remain strong, albeit decreasing over time owing to its plans to expand its business. We expect MC's

risk-adjusted capital (RAC) ratio will range between 13%-13.5% by year-end 2016, declining from 17.7% as of end-2014. We expect MC to accumulate approximately €50 million-€60 million in profits in 2015-2016. We also anticipate that fees coming from the management of the "Fondo Centrale di Garanzia" and the increasing contribution from MC's lending business will boost its profitability.

We expect credit losses to constrain earnings retention in the forecasted period. We forecast that MC will accumulate credit losses of about 130-100 basis points (bps) per year, compared with a yearly average of 70bps in 2013-2014. This increase will mainly result from the still-difficult economic environment in Italy, especially in Southern Italy where the bank targets its business, and the expansion of the bank's loan book.

We believe that Poste's funding support significantly underpins MC's creditworthiness. For example, Poste recently decided to extend its €200 million loan to MC to the end of 2016. We expect Poste will likely provide financial support to MC if it were to find it difficult to access external funding.

We continue to incorporate in our rating on MC the benefits derived from Poste's well-known brand in Italy. We believe this is crucial to MC's ability to access third-party credit lines and diversify its funding sources. We expect new funding sources to contribute to MC reducing its reliance on central bank funding, which amounted to 58% of its funding needs as of December 2014.

Outlook

The negative outlook mainly reflects the possibility that we could lower the rating if we perceive a reduction in Poste's commitment to MC in the longer term. Specifically, this could occur if we perceive a change in MC's position within the Poste group or if we consider that its importance to the group has reduced.

We could also lower the rating if we think that MC is unable to originate new business in line with stated targets or envisage a weakening in its liquidity position. This could happen if MC proves unable to reduce its recourse to central bank funding without decreasing its liquidity buffers, absent an increase in funding support from its parent, Poste.

We could revise the outlook to stable if we perceive that Poste will remain strongly committed to providing sufficient extraordinary and ongoing support to MC and that the bank maintains its strong capitalization, preserving its RAC ratio above 10%.

Ratings Score Snapshot

Issuer Credit Rating	BB/Negative/B
SACP	bb-
Anchor	bb+
Business Position	Weak -2
Capital And Earnings	Strong +1
Risk Position	Moderate -1
Funding	Average 0
Liquidity	Adequate
Support	+1
GRE Support	0
Group Support	+1
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
MedioCredito Centrale SpA Counterparty Credit Rating	BB/Negative/B	BB/Watch Neg/B

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