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Various Rating Actions Taken On Italian Banks Following BICRA Review

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- The economic environment and funding conditions in Italy are becoming more supportive of Italy's banking sector, in our opinion.
- We now assign a positive trend to our assessment of economic and industry risk for the Italian banking system.
- Even though we consider that a more benign operating environment will drive some improvements in banks' asset quality and profitability, we consider this unlikely to result in, by itself, a large number of positive rating actions on Italian banks.
- That said, we are raising the long-term ratings on Banca Popolare di Milano and its core subsidiary Banca Akros to 'BB-' from 'B+' due to bank-specific developments.
- We have also revised the outlook on our long-term ratings on BPER to positive to reflect our belief that a gradual improvement of economic conditions in Italy could help bolster the bank's asset quality and profitability.
- We have revised the outlook on Unipol Banca to stable from negative and affirmed our ratings to reflect our belief that a disposal of the bank by its parent, Unipol Group, is highly unlikely over the next two years and that downside risk to its financial profile has reduced.
- Additionally, we believe the prospect of extraordinary government support for Italian banks is now uncertain following EU Bank Recovery and Resolution Directive implementation.
- We are affirming the ratings on Veneto Banca because the removal of the one notch of uplift for government support that we previously

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incorporated into the ratings is offset by our view that the bank is undergoing a positive transition.
- We affirmed the long- and short-term ratings and maintained unchanged outlooks on another nine rated Italian banks.

MADRID (Standard & Poor's) Dec. 2, 2015--Standard & Poor's Ratings Services today took the following rating actions:
- Raised our long-term ratings on Banca Popolare di Milano (BPM) and its core subsidiary Banca Akros to 'BB-' from 'B+', and affirmed the 'B' short-term ratings on both banks. The outlook is stable.
- Revised to positive from stable our outlook on Banca Popolare dell'Emilia Romagna (BPER). We also affirmed our 'BB-/B' long- and short-term ratings on BPER.
- Revised to stable from negative the outlook on Unipol Banca, and affirmed the 'BB-/B' long- and short-term ratings.
- Affirmed our 'B+/B' long- and short-term ratings on Veneto Banca. The outlook remains negative.
- Affirmed our ratings on another nine Italian banks and maintained our outlooks on them.

RATIONALE

The rating actions announced today follow our review of our Banking Industry Country Risk Assessment (BICRA) for Italy and our subsequent review of most of the Italian banks we rate. After the review, we revised two outlooks. One of the outlook revisions (BPER) was a direct result of us revising to positive our view of the trends for economic and industry risk in the Italian banking sector. Another one (Unipol Banca) reflects our belief that a disposal of the bank by its parent company is unlikely over the next two years and that downside risk to its financial profile has reduced. We have affirmed the ratings on another bank (Veneto) despite changing to uncertain our assessment of the Italian government's supportiveness of the banking system. We have also raised the long-term rating on two other banks (BPM and its core subsidiary Banca Akros) due to factors specific to them. We also made some changes to the outlook drivers of another nine institutions.

We anticipate that economic conditions are slowly becoming more supportive for Italian banks. We now forecast annual GDP growth of 1.3% in 2016 and 2017, helped by favorable external conditions such as euro depreciation and low oil prices but largely driven by the ECB's accommodative monetary policy. Stronger-than-expected economic activity should support a more rapid recovery of private-sector creditworthiness, particularly that of domestic corporations.

Even though we anticipate that these improvements will be gradual, we think they will progressively benefit Italian banks' asset quality and foster, in particular, a higher reduction in inflows of new problematic assets. Italian banks have accumulated a large stock of problematic assets on their balance sheets through the cycle. While we acknowledge that these portfolios will likely take several years to work out, we consider that stronger economic prospects could prompt some acceleration of disposals, and reduce the level of potential losses embedded in these portfolios. As we consider that the banking sector has already absorbed a significant portion of the credit losses resulting from the prolonged recession, we believe such losses will gradually decline and could return to what we view as the Italian banking sector norm over the next two-to-three years.

At the same time, we believe Italian banks' capacity to affordably access unsecured wholesale funding is improving. This stems from better domestic economic and credit prospects and ample liquidity in the market. We base our opinion on recent market data, as well as the reduction in some of the concerns that market participants previously had regarding Italian banks' and the Italian government's creditworthiness. The risk that a sudden shift in investor sentiment could affect Italian banks' market access is therefore gradually abating, in our opinion.

We now see a positive trend for economic and industry risks in the Italian banking sector. That said, this is unlikely by itself to lead us to take widespread positive rating actions. In the case of some of the largest and/or strongest Italian banks, this is due to the linkage we see between a sovereign's and banks' creditworthiness; our 'BBB-' long-term sovereign credit rating on Italy constrains some of the bank ratings. For other banks, prolonged economic recession has weakened their solvency and more-supportive operating conditions in Italy would just be sufficient, in our view, to shore up their current credit profiles.

We also consider that the prospect of extraordinary government support for the Italian banking sector is now uncertain following the expected full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, from Jan. 1, 2016. We do not completely exclude the possibility of such support and we consider that systemically important Italian institutions face several more years of structural and balance sheet reforms to address their "resolvability" (mitigating the systemic impact if they fail). Nevertheless, we believe the Italian government's ability and willingness to provide support is lower and less predictable under the enhanced resolution framework. We have therefore reclassified the tendency of the Italian government to support private sector commercial banks as "uncertain" under our criteria.

Our long-term ratings on Italian banks continue to range widely, from 'BBB-' to 'B+'. We rate 11 banks in investment grade and 13 in speculative grade. We have stable outlooks on most banks, except for two that have a positive outlook, two with negative outlooks, and another three that remain on CreditWatch with negative implications.

Our upgrade of BPM mainly reflects our expectation that its corporate governance will rapidly improve once the bank completes its announced transformation into a joint stock company in the coming months. We believe this will foster institutional investors' and other shareholders' participation in the bank's strategic decision-making process, likely enhancing management's capacity to implement its plans and improve governance. The rating action on BPM's core subsidiary Banca Akros follows that on its parent.

Our revised outlook on BPER to positive from stable primarily reflects our opinion that a gradual improvement of economic conditions in Italy could help bolster the bank's asset quality and profitability over the next two years. We now anticipate that inflows of nonperforming assets (NPAs) will likely continue reducing, and credit losses will gradually reach levels more in line with other Italian banks'.

Our revised outlook on Unipol Banca to stable from negative reflects our belief that a disposal of the bank by its parent, Unipol Group, is highly unlikely over the next two years given the weak financial profile of the subsidiary, its limited franchise, and lack of potential acquirers' appetite. We also believe the downside risk to Unipol Banca's financial profile has reduced as the bank has stabilized its NPL stock growth and is focusing on reducing future credit losses and creating revenue synergies with the insurance network.

Our affirmation of the ratings on Veneto Banca reflects, on the one hand, our removal of one notch for potential extraordinary government support that we previously incorporated into the ratings. This follows us revising to uncertain our assessment of the Italian government's supportiveness of the banking system. On the other hand, we now incorporate a one-notch uplift into the ratings on Veneto Banca. We therefore rate the bank one notch above its stand-alone credit profile (SACP). This reflects our opinion that if the entity were able to complete its announced capital enhancements--including capital increases and assets disposals--and we were to improve our assessment of the economic risk in Italy, which we currently see as trending positively, this could benefit our view of the bank's capital position and ultimately of its SACP.

OUTLOOKS

BANCA POPOLARE DI MILANO AND BANCA AKROS

The stable outlook reflects our expectation that over the next two years BPM's stock of NPAs will gradually stabilize and its risk-adjusted capital (RAC) ratio will moderately improve to around 6.2% in 2017, compared to 5.7% in 2014, mainly due to decreasing credit losses.

We could raise the ratings on BPM if we thought that BPM's RAC ratio would sustainably rise above 7% by end-2017, most likely as a result of a combination of improved economic conditions and higher-than-we-currently-expect retained earnings. We could also consider an upgrade if BPM continues making progress in reducing its exposure to risky real estate and construction sectors and if we see evidence that the bank's stock of NPAs is decreasing significantly from current levels (about 17% of total loans as of Sept. 30, 2015). An upgrade would also be possible if we were to conclude that BPM's business position is aligned with that of its main peers, likely as a result of improved governance and of management's success in implementing its business plan.

We could lower the ratings if the projected improvement in Italy's economic environment falters and, at the same time, BPM's inflows of new NPAs were to substantially exceed the level of its domestic peers. Although unlikely at this stage, we could consider a downgrade if BPM's corporate governance does not improve in line with our expectations.

The stable outlook on Banca Akros mirrors that on its parent company.

BANCA POPOLARE DELL'EMILIA ROMAGNA

The positive outlook on BPER reflects our opinion that more favorable economic conditions in Italy could help bolster the bank's asset quality and profitability over the next two years.

As such, we could raise the long-term rating on BPER if we conclude that the stock of NPAs has stabilized and we anticipate credit losses will decrease such that they gradually converge with the Italian banking system average (totaling 300 basis points of customer loans in the 2015-2017 period).

We could also consider an upgrade if we were to anticipate BPER's projected RAC ratio was to sustainably increase above 7% by 2017. This would most likely stem from a combination of diminished economic risks in Italy and retained earnings being higher than we currently anticipate.

We could revise the outlook to stable if we saw a further deterioration in the bank's asset quality over next two years and the projected improvement in Italy's economic environment falters.

UNIPOL BANCA

The stable outlook primarily reflects our belief that our current ratings on Unipol Banca already fully capture all the risks the bank faces and that additional downside risk is fairly limited over the next 12-18 months. We believe that its parent, Unipol Gruppo Finanziario, will continue to provide timely and sufficient support to the company. We also now anticipate that the bank's asset quality will gradually stabilize in the coming couple of years as a result of improving macroeconomic conditions.

We could consider lowering the ratings if we perceived that the parent's commitment to provide timely and sufficient support had diminished.

Although unlikely at this stage, we could consider a positive rating action if we were to anticipate that the bank's RAC ratio was going to sustainably exceed 5% over the next two years.

VENETO BANCA

The negative outlook reflects the possibility that we could lower the long-term rating on Veneto Banca if we saw any sign of unexpected additional pressures on the bank's business and financial profiles in the next 18-24 months. Specifically, this could materialize if Veneto Banca's franchise appeared likely to experience heightened reputational risk as a result of unexpected legal, regulatory, or financial sanctions on the bank. We could also downgrade Veneto Banca if we believed its RAC ratio was unlikely to reach a level sustainably above 5%. This could occur if the bank failed to successfully implement the announced capital enhancing measures, or the projected economic improvement in Italy falters, or if it reports higher losses than we currently factor into our ratings.

We could revise the outlook to stable if Veneto Banca were to fully execute its capital strengthening plan--bolstering its solvency with the announced €1 billion capital increase and asset sales--while domestic economic risks reduced and the bank's franchise underwent no further deterioration.

UNICREDIT

The stable outlook on UniCredit mirrors the stable outlook on our long-term ratings on Italy because it is unlikely that we would rate the bank above the sovereign ratings. This reflects our belief that UniCredit would be unlikely to pass the stress test scenario that, under our methodology, would likely accompany a hypothetical sovereign default in Italy given the bank's Italian exposure and the parameters of the stress test. On a stand-alone basis, we expect that the potential gradual reduction of economic and industry risks for banks in Italy, where the bank concentrates about half of its operations, could support UniCredit's performance and potentially bring about an improvement in its SACP over the next 18-24 months. We believe that the bank's domestic market's favorable prospects could support a better operating performance, mainly through a reduction in cost of risk, in the coming years. We therefore expect the bank will keep enhancing capitalization, with its RAC ratio in the 5.7%-6.2% range by end-2017. We also believe that the asset quality in Italy will continue improving and performing more in line with the banking industry average, as evidenced by the bank's most recent track record.

We could consider a positive rating action if we were to upgrade Italy and at the same time we considered that the bank's SACP had improved, or if the bank was to issue more ALAC-eligible instruments than we currently anticipate and reached the minimum threshold for a one-notch uplift above the SACP.

If we were to downgrade Italy, this would trigger a similar action on UniCredit.

FCA BANK

The positive outlook indicates that we could raise the ratings on FCA Bank over the next one-to-two years if it continues to deliver predictable revenue growth amid an improving operating environment while maintaining resilient asset quality and increasing its RAC ratio sustainably above 10%. If these trends continued, we could improve our assessment of FCA Bank's business position relative to peers in the Italian banking sector, as well as entities in international captive finance.

We could also raise the ratings if we were to conclude that the economic and industry risks FCA Bank faces in Italy have diminished.

We could revise the outlook to stable if, contrary to our expectations, we perceive that the bank's RAC ratio will not sustainably exceed 10% over the next two years, and if the expected continuation of favorable economic and operating trends falters.

FIDEURAM-INTESA PRIVATE BANKING

The stable outlook on Fideuram reflects the outlook on our long-term ratings on Italy as well as our expectation that Fideuram should continue posting a positive bottom-line performance and preserving its capital position over the next 18-24 months. It also reflects our opinion that we are unlikely to rate Fideuram above Italy, even if we were to revise upward our assessment of the bank's SACP, likely as a result of diminished economic and industry risks in Italy. As almost all of Fideuram's exposures are in Italy, we generally consider it highly likely that the bank would fail a stress test associated with a sovereign default.

We could consider raising the rating on Fideuram if we anticipated an improvement in the economic and operating environment in Italy and raised the long-term sovereign credit rating on Italy.

If we were to downgrade Italy, this would likely trigger a similar action on Fideuram. We could also consider a downgrade if, against our current expectations, we were to anticipate that the bank's RAC ratio was not going to remain sustainably above 7% over the next two years.

ISTITUTO PER IL CREDITO SPORTIVO

The stable outlook on ICS reflects that on our long-term ratings on Italy as well as our expectation that the bank will preserve its strong capitalization over the next 18-24 months. It also reflects our belief that even if we considered that the bank's SACP had improved, we would be unlikely to rate it above the sovereign due the strong correlation we see between ICS' and Italy's creditworthiness.

Consequently we would consider raising the ratings on ICS only if we raised our sovereign rating on Italy and if, at the same time, we considered that the economic and operating conditions in Italy had improved materially, and that other factors underlying the bank's creditworthiness remain unchanged.

We could lower the ratings if ICS' inflow of NPAs appeared likely to significantly exceed the Italian banking sector average and if the expected favorable economic conditions falter. If we were to downgrade Italy, this would trigger a similar action on ICS.

CREDITO EMILIANO

The stable outlook on Credem reflects that on the sovereign rating as well as our opinion that the bank's superior asset quality and resilient profitability will allow it to preserve its solvency position in the next 18-24 months. We anticipate that Credem will keep accumulating fewer net new NPAs than the Italian banking system average over the next 24 months, and we expect its profitability will continue to benefit from lower credit losses than those of its peers. We forecast that the bank will retain €80 million-€90 million of earnings per year, which will likely allow it to maintain capitalization in line with our current assessment and its 5.0%-5.5% RAC ratio.

We could raise the ratings on Credem if we raised our long-term sovereign credit ratings on Italy, and if at the same time we perceive that economic risk in Italy has reduced and that Credem's solvency has improved more than we currently anticipate.

We could lower the ratings on Credem if it significantly increased its reliance on short-term funding and reduced its liquidity, or if we anticipated its solvency could decline in next 24 months due to higher-than-expected credit growth and/or insufficient organic capital generation. We could also lower the ratings on Credem if we lowered the ratings on Italy.

ICCREA

The stable outlook on Iccrea (comprising Iccrea Holding, Iccrea Banca, and Iccrea BancaImpresa; together, the Iccrea Banking Group) reflects our view that the BCC (Banche di Credito Cooperativo) network should be able to maintain a strong liquidity position and adequate capitalization in the next 12-24 months. We also expect that BCC network will remain committed to supporting Iccrea even in a scenario where, contrary to our expectations, Iccrea's stand-alone financial position deteriorates.

We could lower the ratings on Iccrea if, against our current expectations, the BCC network's capitalization were to decline over the next 24 months to push its RAC ratio below 5% (we currently expect it at about 6%) or if its strong liquidity position deteriorated to a level more akin to domestic peers'.

An upgrade could follow an improvement in Italy's economic and operating environment and a strengthening of the BCC network's financial profile. This could happen if we anticipated the RAC ratio increasing comfortably above 7%. In addition, we would also need to observe a significant tightening of the relationship between individual banks, allowing the group to achieve higher synergies, to increase its transparency, and to reduce the corporate governance issues of some of its members.

MEDIOCREDITO CENTRALE

The negative outlook on MedioCredito Centrale SpA (MC) reflects the possibility that we could lower the rating if we perceived a reduction in Poste Italiane SpA's (Poste Italiane) commitment to MC in the next 12-18 months. Specifically, this could occur if we consider that its importance to the group has reduced or if we saw an increased likelihood that Poste Italiane could dispose of MC.

We could also lower the rating if we believed MC's funding and liquidity position was weakening, for instance if MC were unable to reduce its recourse to central bank funding in line with its business plan. Our current assessment of the bank's funding and liquidity position, among others, reflects our expectation that Poste Italiane will continue providing ongoing support to MC. We could also lower the rating if we anticipate such support could diminish.

We could revise the outlook to stable if Poste Italiane appeared strongly committed to continuing to provide sufficient extraordinary and ongoing support to MC.

RELATED CRITERIA AND RESEARCH

Related criteria

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Commercial Paper I: Banks, March 23, 2004
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Group Rating Methodology, Nov. 19, 2013
- Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria | Rating Government-Related Entities: Methodology And Assumptions, Mar. 25, 2015
- General Criteria | Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013

Related research

- Credit FAQ: How Standard & Poor's Applied Its Government Support And ALAC Criteria To European Banks In December 2015, Dec. 2, 2015
- Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015, Oct. 1, 2015
- Government And ALAC Support Ratings Uplift For Systemically Important

European Banking Groups, Oct. 1, 2015
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014
- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014

BICRA SCORE SNAPSHOT*

	To	From
BICRA SCORE	6	6
Economic Risk	7	7
Industry Risk	5	5
Trends		
Economic risk trend	Positive	Stable
Industry risk trend	Positive	Stable

*Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

RATINGS LIST

Upgraded		
	To	From
Banca Popolare di Milano SCRL		
Banca Akros SpA		
Counterparty Credit Rating	BB-/Stable/B	B+/Stable/B
Outlook Action; Ratings Affirmed		
Banca Popolare dell'Emilia Romagna S.C.		
Counterparty Credit Rating	BB-/Positive/B	BB-/Stable/B
Unipol Banca SpA		
Counterparty Credit Rating	BB-/Stable/B	BB-/Negative/B
Ratings Affirmed		
UniCredit SpA		
Fideuram - Intesa Sanpaolo Private Banking SpA		
Credito Emiliano SpA		
Istituto per il Credito Sportivo		
Counterparty Credit Rating	BBB-/Stable/A-3	

FCA Bank SpA	
Counterparty Credit Rating	BB+/Positive/B
Iccrea Holding SpA	
Iccrea BancaImpresa SpA	
Iccrea Banca SpA	
Counterparty Credit Rating	BB/Stable/B
MedioCredito Centrale SpA	
Counterparty Credit Rating	BB/Negative/B
Veneto Banca SCPA	
Counterparty Credit Rating	B+/Negative/B

NB: This list does not include all the ratings affected.

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Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at 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 (46) 8-440-5914; or Moscow 7 (495) 783-4009.