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Research Update:

Italy-Based MedioCredito Centrale 'BB' Rating Placed On CreditWatch Developing On Announced Disposal By Poste Italiane

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Overview

- On Feb. 9, 2017, Poste Italiane SpA announced it has reached an agreement to sell its subsidiary, MedioCredito Centrale (MC), to Invitalia.
- We believe that the transaction, if finally approved by regulators, could have a significant impact on MC's creditworthiness.
- As a result, we are placing our 'BB' long-term rating on MC on CreditWatch with developing implications.
- The CreditWatch placement means that we could raise, affirm, or lower the ratings on MC depending on the level of support that Invitalia will be providing to the bank within the implementation of its new business strategy.

Rating Action

On Feb. 15, 2017, S&P Global Ratings placed its 'BB' long-term counterparty credit rating on MedioCredito Centrale SpA (MC) on CreditWatch with developing implications. At the same time, we affirmed our 'B' short-term rating.

Rationale

The CreditWatch placement follows Poste Italiane SpA's announcement that it has finalized an agreement to sell government-related entity Invitalia its entire shareholding in its banking subsidiary, MC. The transaction is worth €390 million, close to the bank's book value. We expect the acquisition to be completed within the next three months, subject to the approval of the Italian Ministry of Economy, the Bank of Italy, and the European Central Bank.

Our rating action mainly reflects the uncertainty around the extent of both extraordinary and ongoing support--particularly capital and funding related--that Invitalia will be able and willing to offer to MC in the future, as part of its new business plan.

Invitalia is 100%-owned and controlled by the Italian Ministry of Economy, unlike Poste Italiane, which is currently undergoing privatization.

Furthermore, we understand that the buyer operates as the national agency for inward investments and economic development, with a particular focus on Southern Italian regions. Therefore, we could see a better alignment in terms

of strategic objectives with the new parent, given that MC was primarily designed by the Italian Ministry of Economy and Finance in 2011 to provide loans and guarantees on loans to small and midsize enterprises in Southern Italy.

We are affirming our 'B' short-term rating on MC to reflect that, at present, we consider the upside or downside potential for the long-term counterparty credit ratings to be likely limited to one notch.

CreditWatch

We aim to resolve the CreditWatch most likely within the next three months, as soon as we receive more details on this transaction. We will hear from either the new shareholder or the Italian government about the plans for incorporating MC into Invitalia's new business plan. Only then we will be able to determine the level of actual ongoing and extraordinary government support we could expect MC to benefit from.

As a result, we could affirm, raise, or lower our long-term 'BB' rating on MC.

In particular, we could affirm the long-term rating on MC if we believed that this transaction might lead to a closer interconnection with the Italian government, thereby replacing the current group support by Poste Italiane. Specifically, this could occur if the government were able and willing to meet MC's ongoing liquidity needs, as well as to ensure a higher degree of extraordinary support, compared with the degree of government support that we current incorporate into the rating.

Alternatively, we could raise the long-term rating on the bank by one notch if we considered that the likelihood of government extraordinary support had materially increased, following not only a closer relationship with the Italian government, but also a more important role within its strategy.

Finally, we could lower the long-term rating on MC by one notch if we assessed that the government's stance on supporting MC were not sufficient to compensate for Poste Italiane's extraordinary and ongoing support.

Ratings Score Snapshot

Issuer Credit Rating	BB/Watch Dev/B	BB/Negative/B
SACP	bb-	bb-
Anchor	bb+	bb+
Business Position	Weak (-2)	Weak (-2)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Moderate (-1)	Moderate (-1)

Funding and Liquidity	Average (0) Adequate (0)	Average (0) Adequate (0)
Support	(+1)	(+1)
ALAC Support	(0)	(0)
GRE Support	(0)	(0)
Group Support	(+1)	(+1)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

Related Criteria

- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Group Rating Methodology, Nov. 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

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

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