

Rating Action: Moody's places Banca del Mezzogiorno's long term ratings under review for downgrade

31 Dec 2019

This follows Italian government decision to involve the bank in Banca Popolare di Bari's rescue

Paris, December 31, 2019 -- Moody's Investors Service ("Moody's") today placed the Ba1 long-term issuer ratings and Baa3 long-term deposit ratings of Banca del Mezzogiorno - MCC S.p.A. (Banca del Mezzogiorno) under review for downgrade. The agency also put under review for downgrade the bank's standalone Baseline Credit Assessment (BCA) and Adjusted BCA of ba3.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

Banca del Mezzogiorno's ratings and assessments were placed under review for downgrade following the announcement by the Italian government on 15 December 2019 that the bank would be involved in the rescue of the troubled (unrated) Banca Popolare di Bari (BPB). On 13 December 2019 BPB, which has a capital shortfall stemming from insufficient provisions against its nonperforming loans, was placed under special administration by the Bank of Italy.

Although not all the details of the rescue plan are currently available, the government has announced that it would grant BPB a capital injection of up to €900 million through Banca del Mezzogiorno.

Given that BPB is multiple times larger than Banca del Mezzogiorno, the transaction will likely materially affect the risk profile and creditworthiness of the latter. As per public financial reports, BPB had €1.2 billion of nonperforming loans as of June 2019, close to half of Banca del Mezzogiorno's total assets and four times its tangible common equity.

During the review period, Moody's will seek more clarity on the details of the transaction in order to assess the likely future financial profile of Banca del Mezzogiorno. The review will address the following issues: (1) the nature, size and conditions under which the transfer of risk to Banca del Mezzogiorno from BPB will be made and compensated by the government's capital injection; (2) the terms of the financial contribution from Italy's national interbank deposit protection fund (FITD), which on 30 December 2019 announced that it will inject €310 million; and (3) the conditions imposed by the European authorities so as to ensure compliance of the rescue with European rules (e.g. state aid).

WHAT COULD CHANGE THE RATING UP

There is limited upward pressure on the affected ratings at present, as indicated by the review for downgrade. However, if, upon the conclusion of the review, the Banca del Mezzogiorno's creditworthiness were broadly unchanged, Moody's could confirm the affected bank ratings and assessments at their current levels. We foresee low likelihood of the transaction being positive for the bank's creditworthiness, leading to an upgrade of Banca del Mezzogiorno's ratings over the short term.

WHAT COULD CHANGE THE RATING DOWN

Banca del Mezzogiorno's deposit and long-term issuer ratings could be downgraded if the restructuring of BPB were to result in a weakening of the creditworthiness of Banca del Mezzogiorno's, prompted in particular by a weakening of asset quality and/or capitalization.

OUTLOOK

Banca del Mezzogiorno's ratings were placed under review for downgrade to reflect the potentially increased risks on assets and solvency linked to the Italian government's decision to involve the bank into Banca Popolare di Bari's rescue.

LIST OF AFFECTED RATINGS

..Issuer: Banca del Mezzogiorno - MCC S.p.A.

On Review for Downgrade:

- ... Adjusted Baseline Credit Assessment, Placed on Review for Downgrade, currently ba3
- ... Baseline Credit Assessment, Placed on Review for Downgrade, currently ba3
- ... Long-term Counterparty Risk Assessment, Placed on Review for Downgrade, currently Baa3(cr)
- ... Short-term Counterparty Risk Assessment, Placed on Review for Downgrade, currently P-3(cr)
- ... Long-term Counterparty Risk Ratings, Placed on Review for Downgrade, currently Baa3
- ... Short-term Counterparty Risk Ratings, Placed on Review for Downgrade, currently P-3
- ... Long-term Issuer Ratings, Placed on Review for Downgrade, currently Ba1, Outlook Changed To Rating Under Review From Stable
- ... Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Ba1
- ... Long-term Bank Deposit Ratings, Placed on Review for Downgrade, currently Baa3, Outlook Changed To Rating Under Review From Stable
- ... Short-term Bank Deposit Ratings, Placed on Review for Downgrade, currently P-3

Outlook Action:

- ...Outlook Changed To Rating Under Review From Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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