

Research Update:

# Mediocredito Centrale Ratings Affirmed On Capital Buffer; Outlook Negative

April 29, 2020

## Overview

- Despite governments' measures to contain the COVID-19 pandemic and the unprecedented support they have committed to corporate and household sectors, European economies, including Italy, face an unprecedented challenge ahead.
- Even under our base case of an economic recovery starting in third-quarter 2020, we expect Mediocredito Centrale's (MCC's) earnings and asset quality to weaken through end-2020 and into 2021.
- We are affirming the ratings on MCC as we believe that its capital buffers would be sufficient to absorb the rising credit losses we project over 2020-2021.
- The negative outlook now primarily reflects our view that the cyclical economic recovery could be substantially weaker or take longer than our current expectations, and that this would have far more negative implications for MCC's credit strength.

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## Rating Action

On April 29, 2020, S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term issuer credit ratings on Italy-based government-related bank Mediocredito Centrale SpA (MCC). The outlook remains negative.

## Rationale

Today's rating action follows a review of several Western European banking sectors, including Italy. We expect the COVID-19 pandemic to cause a severe recession in Italy in 2020. While we expect recovery in 2021, we don't anticipate that it will immediately and entirely offset the damage to the economy, household wealth, and various corporate sectors. We also believe that Italian banks are more vulnerable to deteriorating economic conditions than others in Europe because of their high exposure to the small and midsize enterprise (SME) sector.

We now consider that risks to MCC's credit profile are growing, particularly if the economic

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rebound we expect in Italy is delayed or fiscal countermeasures introduced by respective governments prove less effective. We consider MCC to be particularly exposed, given that 55% of its customer loans are to SMEs concentrated in Southern Italy.

Under our base-case scenario, we expect a meaningful deterioration of MCC's asset quality, revenues, and profitability through 2020 and into 2021. More specifically, we expect credit losses to almost double to 200 basis points. We anticipate that this trend would only partially reverse in 2021.

Despite pressure on its earnings, we expect MCC's risk-adjusted capital to remain sustainably above 10% over the next two years. Moreover, we note that the Italian Decree "Cura Italia" strengthens the bank's lending-facilitating tools "Fondo di Garanzia", solely managed by MCC, by increasing the maximum guaranteed amount, as well as the maximum guarantee for single borrower, until end-December 2020. Consequently, we believe that MCC's fees from this activity could be higher than our previous expectations, which underlines our affirmation of the ratings on the bank.

## Outlook

The negative outlook mirrors that on the Italian sovereign, MCC's main shareholder, and reflects material risks that we see to the bank's creditworthiness over the next 12-24 months. It also reflects our view that the potential acquisition of Banca Popolare di Bari could weaken MCC's creditworthiness.

## Downside scenario

If we were to lower the rating on the Italian sovereign, we would take a similar action on MCC. In addition, if the economic rebound is delayed or fiscal countermeasures prove ineffective, resulting in material erosion of the bank's capital buffers or more pronounced deterioration of its asset quality, we could also lower the ratings. Finally, we could lower the ratings on MCC by one or two notches over the next 12 months if we anticipated that the bank's future capitalization or its risk profile had meaningfully deteriorated following the integration with Banca Popolare di Bari.

## Upside scenario

We could revise our outlook on MCC back to stable following a similar action on Italy, providing that uncertainties around the potential Banca Popolare di Bari acquisition had abated and if we believed the economic impact of COVID-19 had not materially affected the bank's stand-alone creditworthiness.

## Ratings Score Snapshot

<b>Issuer Credit Rating</b>	BBB-/Negative/A-3
<b>SACP</b>	bb
Anchor	bbb-
Business Position	Moderate (-1)
Capital and Earnings	Strong (+1)

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Risk Position	Moderate (-1)
Funding and Liquidity	Below Average and Adequate (-1)
<b>Support</b>	0
ALAC Support	0
GRE Support	2
Group Support	0
Sovereign Support	0
Additional Factors	0

### Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- Outlooks On Most Italian Banks Now Negative On Deepening COVID-19 Downside Risks, April 29, 2020
- How COVID-19 Risks Prompted European Bank Rating Actions, April 29, 2020
- Italy 'BBB/A-2' Ratings Affirmed; Outlook Negative, April 24, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- Italian Banks Not Adapting To The Digital World Quickly Will Be Left Behind, Feb. 17, 2020
- The Coronavirus Pandemic Is Set To Test The Resiliency Of Italy's Banks, March 13, 2020

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

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have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.

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