

Announcement: Moody's extends the review for downgrade on Banca del Mezzogiorno

28 May 2021

Paris, May 28, 2021 -- Moody's Investors Service ("Moody's") today extended its review for downgrade on all the ratings and assessments of Banca del Mezzogiorno - MCC S.p.A. (Banca del Mezzogiorno) initiated on 31 December 2019 and extended on 10 November 2020.

The review for downgrade on the ratings and assessments of Banca del Mezzogiorno reflects the potentially increased risk profile resulting from the acquisition of Banca Popolare di Bari S.p.A. (BPB) and from the completion of its new business plan.

Moody's expects to close the review by end-September 2021 after Banca del Mezzogiorno has published its first consolidated accounts (as of 31 December 2020). The first consolidated accounts need to factor-in the report assessment of BPB's commissioners following the completion of their special administration (from 13 December 2019 until 15 October 2020) which has not yet been provided.

RATINGS RATIONALE

Banca del Mezzogiorno's ratings remain under review for downgrade to reflect the potentially increased risk profile resulting from the rescue of BPB and the bank's new business plan. Furthermore, Banca del Mezzogiorno's risk profile could also be affected by the investments it might undertake in other local failing banks at the government's request.

In December 2019, the Italian government set aside €900 million so that Banca del Mezzogiorno could extend its support to ailing financial institutions operating in the south of Italy. In June 2020, Banca del Mezzogiorno had used €430 million of this allowance for a capital injection in BPB, thereby becoming its main shareholder with 96.8% of shares.

On 11 February 2021, Banca del Mezzogiorno approved its 2021-2023 business plan, which includes an expected material increase in its total assets which will exceed the impact of the integration of the rescued BPB.

The business plan of Banca del Mezzogiorno targets customer loans to reach €3 billion as of December 2023 from €1.7 billion as of June 2020 (+76.4%). This lending activity will be directed at small and mid-sized enterprises in the south of Italy.

The acquisition of BPB and the investments in ailing banks that may occur in the future involve numerous challenges for Banca del Mezzogiorno given its limited size compared to that of BPB and its lack of expertise in BPB's core business i.e. retail activities.

During the extended review period, Moody's will assess the impact of the acquisition of BPB based on the first consolidated accounts for the financial year ending 31 December 2020 as well as the implications of the new business plan.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of the ratings and assessments of Banca del Mezzogiorno is unlikely given the review for downgrade. However, if, upon the conclusion of the review, the creditworthiness of Banca del Mezzogiorno were considered broadly unchanged, Moody's could confirm the affected bank ratings and assessments at their current levels.

The senior unsecured debt and long-term issuer ratings could be upgraded if the bank were to issue more bail-in-able debt.

Banca del Mezzogiorno's deposit and long-term issuer ratings could be downgraded if the roll-out of the business plan were to result in a weakening of its creditworthiness, prompted in particular by a weakening of

asset quality or capitalization or both.

Banca del Mezzogiorno's long-term ratings could also be downgraded in case the buffer of bail-in-able debt were to be reduced.

PRINCIPAL METHODOLOGY

The methodology used in these ratings was Banks Methodology published in March 2021 and available at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1261354. Alternatively, please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

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