

# RatingsDirect®

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## Various Rating Actions Taken On Italian Banks Due To Rising Economic And Industry Risks

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- In our opinion, Italian banks are operating in an environment with higher economic risks, leaving them more exposed to a deeper and longer recession in Italy than we had previously anticipated.
- In addition, we believe that Italian banks face increased industry risks as a result of a sustained higher cost of funding than most other banking markets in the eurozone, which could limit banks' access to affordable capital market financing.
- We have therefore lowered our ratings on 18 Italian banks and removed the ratings on 17 of those banks from CreditWatch with negative implications.
- We have affirmed the ratings on UniCredit and Intesa Sanpaolo. We also affirmed the ratings on Istituto per il Credito Sportivo, Banca Fideuram, Mediobanca, Banca Popolare dell'Alto Adige, and Istituto Centrale delle Banche Popolari Italiane, and removed the respective ratings from CreditWatch negative.
- The outlook on the long-term ratings on all Italian banks remains negative, apart from on Banca Carige and Dexia Crediop, whose ratings remain on CreditWatch negative.

MILAN (Standard & Poor's) July 24, 2013--Standard & Poor's Ratings Services today said it has taken the following rating actions on Italian banks:

- We lowered our long-term counterparty credit ratings by one notch on 17 banks, including Unione di Banche Italiane (UBI) and Credito Emiliano (Credem) to 'BBB-'; FGA Capital (FGA), Iccrea Holding (Iccrea), and MedioCredito Centrale (MedioCredito) to 'BB+'; Banca Popolare di Vicenza, Veneto Banca, Banca Popolare di Milano, Banca Popolare dell'Emilia Romagna, and Banco Popolare Società Cooperativa to 'BB'; and Unipol Banca to 'BB-'. We also removed all these ratings from CreditWatch, where they were placed with negative implications on July 12, 2013.

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- We lowered our long-term counterparty credit rating on Agos-Ducato to 'BB-' from 'BB+' and removed the rating from CreditWatch, where it was placed with negative implications on March 12, 2013.
- We lowered our long-term counterparty credit ratings on Banca Carige to 'BB-' from 'BB' and maintained the long-term rating on CreditWatch negative.
- We also lowered the short-term ratings on UBI and Credem to 'A-3' from 'A-2' and on FGA, Iccrea, and MedioCredito to 'B' from 'A-3'.
- We affirmed the 'BBB/A-2' ratings on UniCredit and Intesa Sanpaolo.
- We affirmed the 'BBB/A-2' ratings on Istituto per il Credito Sportivo (ICS), Banca Fideuram (Fideuram), and Mediobanca and the 'BBB-/A-3' ratings on Banca Popolare dell'Alto Adige (BPAA) and Istituto Centrale delle Banche Popolari Italiane (ICBPI), and removed the ratings from CreditWatch where they were placed with negative implications on July 12, 2013.
- We maintained our 'B+/B' long- and short-term ratings of Dexia Crediop on CreditWatch with negative implications.
- We also affirmed the short-term ratings on the other 11 banks.
- The outlook on the long-term ratings on all Italian banks remains negative, apart from on Banca Carige and Dexia Crediop, which remain on CreditWatch negative.

Today's rating actions follow our review of economic and industry risks that we believe Italian banks are facing, as well as our review of the bank-specific rating factors that we consider when assessing Italian banks' creditworthiness.

Because of the increased economic risks we see for Italian banks, we believe they are now more exposed to a deeper and longer recession than we had previously anticipated. In our opinion, the ongoing recession is materially affecting the resilience of the Italian economy. We currently expect a further worsening of Italy's economic prospects coming on top of a decade of real growth averaging minus 0.04%. Italy's economic output in the first quarter of 2013 was 8% lower than in the last quarter of 2007 and continues to fall. We have also recently lowered our forecasts for GDP growth for 2013 to minus 1.9% (see "The Eurozone Economy Shows Signs Of Stabilization, But Recovery Is Still Some Way Off," published June 26, 2013 on RatingsDirect), mainly due to a further contraction in domestic consumption and corporate investments. As such, at the end of 2013, we anticipate that Italian GDP would have contracted by almost 9% in real terms over the past six years with private business investment down almost 25% in the same period. Our expectation is that 2013 per capita GDP will be an estimated €25,000 or \$33,000, which is somewhat below 2007 levels. We do not expect this trend to materially reverse in 2014.

Our opinion of Italy's heightened industry risks incorporates our view of a sustained higher cost of funding in Italy compared with most other banking markets in the eurozone, which could limit banks' access to affordable capital market financing. We acknowledge that Italian banks' substantial financing via the European Central Bank (ECB)'s Long-Term Refinancing Operations (LTRO) in 2011 and 2012 has partially mitigated the impact on the banks' profitability

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of the higher cost of funding compared with the pre-crisis level. We also acknowledge improved investor sentiment, particularly after the ECB's announcement of the OMT (Outright Monetary Transactions) in August 2012. Nevertheless, we consider that the banking system's ability to access wholesale funding remains significantly exposed to changes in sentiment regarding Italy's economic prospects and its sovereign creditworthiness.

We continue to see a negative trend for the economic risks faced by Italian banks. As a result of the deepening recession, we consider that banks face tough operating conditions, which we believe could further weaken their financial profiles, notably in terms of asset quality and capital and earnings.

We continue to see a negative trend for the industry risks that Italian banks are facing. This mainly reflects our view that uncertainties about Italy's economic prospects and sovereign creditworthiness could put further pressure on operating conditions in the banking sector. This could continue to impair banks' access to, and the cost of, unsecured funding, as well as their overall ability to generate sufficient risk-adjusted returns on core banking products to enable them to meet their cost of capital.

As a result of the heightened economic and industry risks we now see in the domestic environment, we have revised down our anchor for banks operating predominantly in Italy to 'bbb-' from 'bbb'. The anchor is our starting point for assigning a long-term rating to a bank.

The affirmations of the ratings on Intesa Sanpaolo, Fideuram, Mediobanca, UniCredit, ICS, ICBPI, and BPAA reflect our opinion that the banks' business and financial profiles remain consistent with our current counterparty credit ratings, even after we take into account the negative impact of the heightened economic and industry risks we see in Italy. We recently lowered the long-term ratings on Intesa Sanpaolo, Fideuram, Mediobanca, UniCredit and ICS following the lowering of the long-term sovereign credit rating on Italy on July 10, 2013 (see "Various Rating Actions Taken On Italian Banks," published July 12, 2013).

The lowering of the ratings on UBI, Banca Popolare di Milano, Banca Popolare dell'Emilia Romagna, Unipol Banca, MedioCredito, FGA, Banca Carige, Iccrea Holding, Banco Popolare, Banca Popolare di Vicenza, Veneto Banca, and Credito Emiliano primarily reflects the impact of the heightened economic and industry risks we see in Italy on the anchor, the starting point for assigning a long-term rating to a bank.

In addition, for a number of banks--Banco Popolare, Banca Popolare di Vicenza, Banca Carige, Veneto Banca, and Credito Emiliano--we have also revised our view of some of the specific factors that we take into consideration when assessing Italian banks' creditworthiness. However, our revised view of some of these factors has not resulted in a further impact on the ratings on these banks, as this is mitigated by our inclusion of government support in the ratings on most of these banks. (Please see individual research updates on

each bank for details.)

The outlook on the long-term ratings on all Italian banks remains negative, apart from on Banca Carige and Dexia Crediop, which remain on CreditWatch negative. The negative outlook mainly reflects the negative economic and industry trends that we consider banks operating in Italy continue to face, as well as specific factors that we account for when assessing Italian banks' creditworthiness. For a number of institutions, the negative outlook also takes into account the current negative outlook on the long-term sovereign credit rating. This is because, according to our criteria, we seldom rate banks above the sovereign rating of their country of domicile. In addition, the government support we factor into the ratings on the banks is also based on the long-term ratings on the sovereign.

#### RELATED CRITERIA AND RESEARCH

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Corporate Criteria--Parent/Subsidiary Links; General Principles; Subsidiaries/Joint Ventures/Nonrecourse Projects; Finance Subsidiaries; Rating Link to Parent, Oct. 28, 2004
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010,
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology and Assumptions, June 14, 2011

#### BICRA SCORE CHANGES

	SCORE*	
	To	From
BICRA GROUP	5	4
Economic risk	6	5
Economic resilience	High risk	Intermediate risk
Economic imbalances	Intermediate risk	Intermediate risk
Credit Risk	High risk	High risk
Industry risk	5	4
Inst. framework	Intermediate risk	Intermediate risk
Competitive dynamics	Intermediate risk	Intermediate risk
Systemwide funding	High risk	Intermediate risk

\*On a scale from 1 (lowest risk) to 10 (highest risk). For more details on BICRA scores on all banking industries that we assess across the globe, please see our latest "Banking Industry Country Risk Assessment Update", updated on a monthly basis.

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RATINGS LIST

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Banca Fideuram Mediobanca SpA Istituto per il Credito Sportivo Counterparty Credit Rating	BBB/Negative/A-2	BBB/Watch Neg/A-2
Banca Popolare dell'Alto Adige Istituto Centrale delle Banche Popolari Italiane SpA CartaSi SpA Counterparty Credit Rating	BBB-/Negative/A-3	BBB-/Watch Neg/A-3

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Banco Popolare Societa Cooperativa SCRL Banca Aletti & C. SpA Credito Bergamasco Banca Popolare dell'Emilia Romagna S.C. Banca Popolare di Milano SCRL Banca Akros SpA Banca Popolare di Vicenza ScpA Veneto Banca S.C.P.A. Counterparty Credit Rating	BB/Negative/B	BB+/Watch Neg/B
Agos-Ducato SpA Counterparty Credit Rating	BB-/Negative/B	BB+/Watch Neg/B
Unipol Banca SpA Counterparty Credit Rating	BB-/Negative/B	BB/Watch Neg/B

Downgraded; CreditWatch/Outlook Action

	To	From
Unione di Banche Italiane Scpa Credito Emiliano SpA Counterparty Credit Rating	BBB-/Negative/A-3	BBB/Watch Neg/A-2



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