MOODY'S
INVESTORS SERVICE

Rating Action: Moody's takes actions on 17 Italian banks' ratings

Global Credit Research - 22 Jun 2015

Actions reflect conclusion of methodology-related reviews and revision of government support considerations

London, 22 June 2015 -- Moody's Investors Service has today taken actions on 17 banks in Italy (Baa2 stable), of which 16 were on review. The reviews, initiated on 17 March 2015, followed the introduction of the rating agency's revised bank rating methodology published on 16 March 2015.

In light of the revised banking methodology, Moody's rating actions generally reflect the following considerations (1) the "Moderate +" Macro Profile of Italy; (2) the banks' modest core financial ratios; (3) the protection offered to senior creditors by substantial volumes of deposits and senior debt, as captured by Moody's Advanced Loss Given Failure (LGF) liability analysis; and (4) Moody's view of a decline in the likelihood of government support, in case of need.

Among the actions that Moody's has taken on the Italian banks are the following:

- 11 long-term bank deposit and 10 issuer/senior unsecured debt ratings upgraded

- One long-term bank deposit and three issuer/senior unsecured debt ratings downgraded

- Three long-term bank deposit and one issuer/senior unsecured debt ratings confirmed

- One long-term bank deposit rating affirmed

- Four short-term bank deposit and one issuer/senior unsecured debt ratings upgraded

- One short-term bank deposit and one issuer/senior unsecured debt ratings downgraded

- Three short-term bank deposit and one issuer/senior unsecured debt ratings confirmed

- Eight short-term bank deposit and four issuer/senior unsecured debt ratings affirmed;

- Seven baseline credit assessment (BCAs) affirmed and two downgraded

Moody's has also assigned Counterparty Risk (CR) Assessments to 19 Italian banks and their branches, in line with its revised bank rating methodology. These include four banks whose ratings were not on review.

Moody's has withdrawn the outlooks on all junior instrument ratings for its own business reasons. Please refer to Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, www.moodys.com.

Moody's has assigned stable outlooks to the long-term deposit and issuer/senior unsecured debt ratings of the 17 affected banks. Outlooks, which provide an opinion on the likely rating direction over the medium term, are now assigned only to long-term deposit and issuer/senior unsecured debt ratings.

For more information on these rating actions, please access "Key Analytic Considerations in Our Rating Actions on Italian Banks" at: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_1005806

Please click on the following link to access the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_182500

Please refer to this link for the initial bank review: https://www.moodys.com/research/Moodys-reviews-global-bank-ratings--PR_321005

Please refer to this link for the new bank rating methodology: http://www.moodys.com/viewresearchdoc.aspx?docid=PR_320662

RATINGS RATIONALE

The revised bank rating methodology includes a number of elements that Moody's has developed to help more accurately predict bank failures and determine how each creditor class is likely to be treated when a bank fails and enters resolution. These new elements capture insights gained from the crisis and the fundamental shift in the banking industry and its regulation.

(1) THE "MODERATE +" MACRO PROFILE OF ITALY

Lower economic growth and greater event risk relative to some other European countries are the main characteristics of the Italian banks' macro environment. In addition, credit conditions are weakened by the high leverage of the corporate sector, which is highly reliant on short-term debt and bank lending. Bank funding has stabilised but conditions remain fragile. On the other hand, Moody's assesses institutional strength as "high +", which is partly supported by commonly agreed EU political, economic, fiscal and legal standards.

(2) THE BANKS' MODEST CORE FINANCIAL RATIOS

The Italian banks' BCAs (ba2 on an average asset-weighted basis) reflect their modest financial ratios, including weak asset quality, sufficient capital adequacy, low profitability and satisfactory liquidity metrics. However, the banks' BCAs range from baa3 to caa3, reflecting different degrees of resilience to Italy's prolonged recession and bank-specific factors (see below for the analytical considerations for the individual banks covered in this press release).

(3) PROTECTION OFFERED TO SENIOR CREDITORS, AS CAPTURED BY MOODY'S ADVANCED LGF LIABILITY ANALYSIS

Under its revised methodology, Moody's applies its Advanced LGF analysis to the liability structures of banks subject to operational resolution regimes. Moody's expects that Italy, as a member of the European Union, will introduce bank resolution legislation in line with the EU Bank Recovery and Resolution Directive (BRRD). Accordingly, Moody's applies its Advanced LGF analysis to these banks' liability structures. This analysis results generally in "very low" loss given failure for long-term deposits and senior debt, taking into account the banks' substantial volume of deposits and senior unsecured debt, including senior bonds sold to retail clients.

(4) DECLINE IN THE LIKELIHOOD OF GOVERNMENT SUPPORT

Deposit and senior unsecured debt ratings of Italian banks now range from A3 to Caa1. The lowering of Moody's government support assumptions reflects the reduced likelihood of support being forthcoming within the context of the expected implementation of the Bank Recovery and Resolution Directive (BRRD). In most cases, the recognition of the likelihood of very low loss on senior debt and deposits, as per Moody's Advanced LGF framework, has offset the negative effect on the banks' ratings from a decline in the expectation of government support.

RATIONALE FOR THE STABLE OUTLOOKS

Most Italian banks now carry a stable outlook, reflecting the stabilisation of (1) Italy's operating environment, with Moody's expectations of GDP growth between 0.5% and 1% in 2015 and 2016 (see the Global Macro Outlook published 12 May 2015); and (2) banks' financials, with problem loan levels that Moody's believes are now close to their peak, strengthened capital adequacy and improving profitability.

--- BANK-SPECIFIC ANALYTIC FACTORS

--UniCredit Spa

The upgrade of UniCredit's long-term deposit and senior debt ratings to Baa1, with a stable outlook, reflects the affirmation of the bank's BCA at ba1 and the Advanced LGF analysis that provides three notches of uplift from the bank's ba1 BCA. UniCredit benefits from a sizeable volume of senior debt and a significant amount of securities subordinated to it, resulting in extremely low expected loss severity in the event of resolution.

The affirmation of UniCredit's ba1 BCA incorporates the bank's weak asset quality and still-low profitability, which the bank's sufficient capital and sound liquidity partly mitigate. UniCredit's problem loans are high, at around 13% of loans at March 2015. In Q1 2015, UniCredit's net income fell by 28% to EUR512 million, compared to the equivalent period of 2014, largely owing to a 17% rise in loan loss provisions. Moody's however expects problem loan levels to remain broadly stable in 2015, with net income strengthening, based on the anticipated economic improvement in Italy.

The bank's transitional Common Equity Tier 1 (CET1) was 10.5%, representing a sufficient 100 bp cushion over the ECB's prudential requirement. UniCredit benefits from liquid assets well in excess of one-year wholesale maturities and a funding profile well diversified geographically and by type of instrument.

There is no uplift from Moody's "moderate" government support assumptions (lowered from "very high" and two notches previously) as the Baa1 long-term deposit and senior debt ratings are already higher than Italy's Baa2 government bond rating.

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--UniCredit Leasing S.p.A.

The downgrade of UniCredit Leasing's issuer ratings to Ba1/Not-Prime from Baa3/Prime-3 reflects the elimination of government support from the ratings. Moody's says that UniCredit Leasing still benefits from very high affiliate support from the company's parent, UniCredit SpA, which leads to a four-notch uplift from the company's BCA of b2, to an adjusted BCA of ba1, in line with UniCredit SpA's BCA.

There is no offsetting effect under the Advanced LGF, as Moody's does not consider non-bank companies such as UniCredit Leasing likely to be included in the scope of the BRRD. There is no uplift from Moody's "low" government support assumptions; previously UniCredit Leasing benefited from one notch of government support indirectly through UniCredit SpA's deposit rating, which itself benefited from two notches of government support.

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--Intesa Sanpaolo Spa

The upgrade of Intesa's long-term deposit and senior debt ratings to Baa1, with a stable outlook, reflects the affirmation of the bank's baa3 BCA and the Advanced LGF analysis that provides two notches of uplift from the bank's BCA. Intesa benefits from a sizeable volume of senior debt and the limited amount of securities subordinated to it, resulting in very low expected loss severity in the event of resolution.

The affirmation of Intesa's BCA at baa3 reflects the bank's sound capital adequacy, providing a considerable buffer to offset the bank's weak asset quality and still-low, albeit improving, profitability. In March 2015, Intesa's transitional CET1 was 13.2%, well above the level of its peers and the ECB's 9% specific requirement. As at the same date, problem loans were high at about 13% of loans, but Moody's believes they will peak in 2015, based on a 21% year-on-year reduction of net new inflows in Q1 2015. In Q1 2015, Intesa's net income more than doubled to EUR1.1 billion compared to Q1 2014 primarily owing to a 30% reduction of loan loss provisions and a 15% growth in fees, and Moody's anticipates a further improvement in Intesa's profitability from 2015 onwards. The bank's reported 44% quarterly cost to income ratio was better than those of its peers.

There is no uplift from Moody's "moderate" government support assumptions (lowered from "very high" and one notch previously) as the Baa1 long-term deposit and senior debt ratings are already higher than Italy's Baa2 government bond rating.

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--Banca IMI

The upgrade of Banca IMI's long-term deposit and senior debt ratings to Baa1, with stable outlook, reflects the Advanced LGF analysis applied to the parent, Intesa. Moody's believes a resolution of the Intesa group would include its domestic subsidiary, and the rating agency's central scenario is that domestic ring-fencing between Intesa and Banca IMI would not be applied by the resolution authorities. For this reason, Moody's applied Intesa's LGF assumptions to Banca IMI, which resulted in two notches of LGF uplift for Banca IMI's deposit and senior debt rating above the baa3 BCA. There is no uplift from Moody's "low" government support assumptions (which remain unchanged).

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-- Unione di Banche Italiane S.c.p.A

The upgrade of UBI's deposit and senior debt ratings to Baa2/Prime-2, with a stable outlook, reflects the affirmation of the bank's BCA at ba1 and the Advanced LGF analysis that provides two notches of uplift from the bank's ba1 adjusted BCA. UBI benefits from a sizeable volume of senior debt and the limited amount of securities subordinated to it, resulting in very low expected loss severity in the event of resolution. The affirmation of UBI's BCA at ba1 reflects the bank's sound capital and liquidity profile. UBI's standalone BCA also incorporates its weakened asset-quality metrics due to the continued increase -- albeit decelerating -- in non-performing loans, and its modest profitability.

There is no uplift given Moody's assumption of a "low" probability of government support, compared to one notch of uplift previously.

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--Banca Nazionale del Lavoro S.P.A.

The upgrade of BNL's long-term deposit and senior debt ratings to Baa1, with a stable outlook, from Baa2 reflects the affirmation of the bank's ba2 BCA, the downgrade of the adjusted BCA to baa3 from baa2, and the advanced LGF analysis that provides two notches of uplift from the bank's baa3 adjusted BCA. BNL benefits from a sizeable volume of senior debt and the limited amount of securities subordinated to it, resulting in very low expected loss severity, in the event of resolution.

The affirmation of BNL's BCA at ba2 reflects the bank's modest regulatory capital, high reliance on ECB and parental funding, improved capital levels, and ongoing funding support from its parent BNP Paribas (deposits, senior unsecured A1/A1 stable, BCA baa1). As some support from BNP is already included in BNL's BCA, Moody's says that it reduced the uplift for affiliate support in BNL's adjusted BCA to two notches, from three previously.

There is no government support uplift given Moody's assumption that the probability of such support will be low.

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--Cassa di Risparmio di Parma e Piacenza Spa (Cariparma)

The upgrade of Cariparma's long-term deposit and senior debt ratings to A3, with a stable outlook, reflects one notch of affiliate support uplift from Credit Agricole SA (adjusted BCA of baa2) and two-notch uplift under the Advanced LGF analysis from the bank's baa2 adjusted BCA. Cariparma benefits from a sizeable volume of senior debt and the limited amount of securities subordinated to it, resulting in very low expected loss severity in the event of resolution.

There is no uplift from Moody's "low" government support assumptions (lowered from "moderate" previously).

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--Banca Popolare di Milano S.C.a.r.l

The upgrade of BPM's long-term deposit and senior debt ratings to Ba3, with a stable outlook, reflects the affirmation of the bank's BCA at b2 and the Advanced LGF analysis that provides two notches of uplift from the bank's b2 adjusted BCA. BPM benefits from a sizeable volume of senior debt and the limited amount of securities subordinated to it, resulting in very low expected loss severity in the event of resolution. The affirmation of BPM's BCA at b2 reflects the bank's improved capital levels, following several capital reinforcement measures during 2014, as well as its continued balance-sheet deleveraging that has gradually improved its liquidity profile. The bank's standalone BCA also reflects its (1) corporate-governance shortcomings; (2) weakened asset-quality indicators due to the continued increase -- albeit decelerating -- in non-performing loans; and (3) low profitability, albeit modestly improving.

There is no government support uplift given Moody's assumption that the probability of such support is low, compared to one notch previously.

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--Credito Emiliano SpA (Credem)

The upgrade of Credem's deposit ratings to Baa2, with a stable outlook, reflects the Advanced LGF analysis that provides one notch of uplift from the bank's baa3 BCA. Credem benefits from a sizeable volume of senior debt and the limited amount of securities subordinated to it, resulting in low expected loss severity in the event of resolution.

There is no government support uplift given Moody's assumption that the probability of such support will be low.

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--Credito Valtellinese (CreVal)

The upgrade of CreVal's long-term deposit and senior debt ratings to Ba2, with a stable outlook, reflects the Advanced LGF analysis that provides two notches of uplift from the bank's b1 BCA. CreVal benefits from a sizeable volume of senior debt and the limited amount of securities subordinated to it, resulting in very low expected loss severity in the event of resolution. There is no government support uplift given Moody's assumption that the probability of such support will be low

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--FCA Bank Spa

The upgrade of FCA Bank's long-term deposit and issuer ratings to Baa2, with a stable outlook, reflects the one-notch lowering of the BCA to ba3, the unchanged two notches of affiliate support uplift from Credit Agricole SA (adjusted BCA of baa2) and two notches of uplift from the Advanced LGF analysis. FCA Bank benefits from a sizeable volume of senior debt, resulting in very low expected loss severity in the event of resolution. There is no further uplift given Moody's "low" government support assumption.

The lowering of the BCA reflects Moody's application of a stricter constraint of one notch above the B1 rating of FCA Bank's industrial parent, Fiat Chrysler Automobiles NV (FCA), from two notches previously. Under the previous methodology, the two-notch difference between the bank's BCA and the rating of FCA itself in part reflected the lower expected loss inherent in the car financing business. Expected loss is now incorporated in Moody's LGF analysis, leading us to reposition the BCA closer to FCA's rating, better reflecting their intrinsically tight links and similar failure probabilities.

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--Iccrea BancaImpresa S.p.a.

The affirmation of Iccrea's Ba2 deposit ratings, with a stable outlook, reflects the affirmation of the bank's b1 BCA and ba3 adjusted BCA, and the Advanced LGF analysis that provides one notch of uplift from the bank's ba3 adjusted BCA. Iccrea benefits from a moderate volume of senior debt and the limited amount of securities subordinated to it, resulting in low expected loss severity in the event of resolution.

There is no government support uplift given Moody's assumption that the probability of such support will be low. The affirmation of Iccrea's b1 BCA reflects the bank's very high integration within the Iccrea group, deteriorating asset quality, modest capitalisation, and good liquidity. The affirmed ba3 adjusted BCA reflects Iccrea's affirmed BCA as well as Moody's unchanged "moderate" support assumption coming from the Italian cooperative banking network (unrated).

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--Banca Sella Holding

The confirmation of Banca Sella's Ba1 deposit ratings, with a stable outlook, reflects the downgrade of the bank's BCA to ba3 from ba2 and the Advanced LGF analysis that provides two notches of uplift from the bank's ba3 BCA. Banca Sella benefits from a sizeable volumes of senior debt and the limited amount of securities subordinated to it, resulting in very low expected loss severity in the event of resolution. The downgrade of Banca Sella's (P)Ba2 senior unsecured MTN rating reflects the downgrade of the bank's BCA to ba3 from ba2 and the Advanced LGF analysis that provides one notch of uplift from the bank's ba3 BCA, indicating low expected loss severity in the event of resolution.

The downgrade of Banca Sella's BCA to ba3 from ba2 reflects the bank's modest capital and low profitability in the context of deteriorating asset quality. In December 2014, Banca Sella reported a CET 1 ratio of 9%, which is equivalent to our Tangible Common Equity to adjusted risk-weighted assets ratio of just 7.4%. Asset quality continued to deteriorate in 2014, with problem loans reaching 12% of gross loans. Deteriorating asset quality also impacted profitability; Banca Sella reported 0.5% net profit over tangible assets, mostly owing to one-off gains from the sale of government bonds.

There is no uplift from Moody's "low" government support assumptions, compared to "moderate" and one notch previously.

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--Cassa Centrale Banca-Credito Coop d Nord Est (Cassa Centrale Banca)

The confirmation of Cassa Centrale Banca's Baa3 deposit and issuer ratings reflects the Advanced LGF analysis that provides no uplift from the bank's baa3 BCA. Moody's said it believes that Cassa Centrale Banca deposits and senior unsecured debt are likely to face moderate loss-given-failure, due to the very limited loss absorption provided by subordinated debt and limited volume of debt and deposits themselves. Additionally, Moody's said that its LGF analysis takes into account the rating agency's expectation that Cassa Centrale Banca's balance sheet will significantly reduce in size in the next 18 months. This results in these ratings being positioned at the same level as the BCA.

There is no government support uplift given Moody's assumption that the probability of such support will be low.

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--Cassa Centrale Raiffeisen

The two-notch upgrade of Cassa Centrale Raiffeisen's deposit and issuer ratings to Baa1, with a stable outlook, reflects the Advanced LGF analysis that provides two notches of uplift from the bank's baa3 adjusted BCA. Cassa Centrale Raiffeisen benefits from a sizeable volumes of senior debt, given its wholesale profile, resulting in very low expected loss severity in the event of resolution.

There is no government support uplift given Moody's assumption that the probability of such support will be low.

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-- Banca del Mezzogiorno -- Mediocredito Centrale Spa

The confirmation of Banca del Mezzogiorno's long-term deposit ratings of Ba1, with a stable outlook, is due to the Advanced LGF analysis that provides two notches of uplift from the bank's ba3 adjusted BCA and offsets reduced government support assumptions. Banca del Mezzogiorno benefits from a sizeable volumes of senior debt, resulting in very low expected loss severity in the event of resolution.

This offsets the lowering in Moody's government support assumptions, via the bank's owner Poste Italiane (Baa2 stable), to "low" from "high", leading to no government support uplift compared to two notches previously.

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--Mediocredito Trentino Alto Adige

The downgrade of MTAA's long-term deposit and issuer ratings to Ba1 from Baa3, with a stable outlook, reflects reduced public support assumptions, partly offset by the Advanced LGF analysis that provides two notches of uplift from the bank's adjusted BCA of ba3.

The lowering in Moody's government support assumptions, via MTAA's public-sector owners, the Autonomous Provinces of Trento and Bolzano (both rated A3 with stable outlook), and the Autonomous Region of Trentino-Alto Adige (not rated), to "low" from "very high" results in no government support uplift, compared to three notches previously.

This is partly offset by a sizeable volumes of senior debt, resulting in very low expected loss severity in the event of resolution.

--- ASSIGNMENT OF COUNTERPARTY RISK ASSESSMENTS

Moody's has also assigned CR Assessments to 19 Italian banks and their branches. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than expected loss and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessments for most Italian banks are one notch above their deposit ratings and reflect the seniority of the counterparty obligations and the volume of liabilities subordinated to them under Moody's Advanced LGF framework.

For the following banks the CR Assessments are capped at Baa1(cr), one notch above Italy's Baa2 government bond ratings, reflecting the more limited benefit of subordination to such obligations under a scenario of sovereign default:

Intesa Sanpaolo

Cassa di Risparmio di Parma e Piacenza

Banca Nazionale del Lavoro

Credito Emiliano

Cassa Centrale Raiffeisen

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward rating momentum on the banks' ratings could develop from (1) a reduction of problem loans, for example through sales or organic improvements driven by better economic conditions; and/or (2) a sustained strengthening of profitability.

Downward rating pressure could emerge if (1) problem loans continue to increase; (2) net losses reduce capital adequacy; and/or (3) external events, such as a potential exit of Greece (Caa2 negative) from the euro area, which would constrain economic growth and funding conditions.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in March 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The principal methodology used in rating Unicredit Leasing S.P.A. was Finance Company Global Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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The ratings of rated entity Credito Valtellinese was initiated by Moody's and were not requested by this rated entity.

Rated entity Credito Valtellinese or its agent(s) participated in the rating process. This rated entity or its agent(s), if any, provided Moody's - access to the books, records and other relevant internal documents of the rated entity.

The following information supplements Disclosure 10 ("Information Relating to Conflicts of Interest as required by

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For identification of which credit ratings have payors that have or have not paid Moody's for services other than determining a credit rating in the most recently ended fiscal year, please see the detailed list under the following link: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_182500 . The list is an integral part of this press release.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead analyst and the Moody's legal entity that has issued the ratings.

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