

### Research Update:

# Ratings On Italy-Based Iccrea Holding, Iccrea Banca, And Iccrea BancaImpresa On Watch Neg Following Sovereign Action

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## Research Update:

# Ratings On Italy-Based Iccrea Holding, Iccrea Banca, And Iccrea BancaImpresa On Watch Neg Following Sovereign Action

## Overview

- On Dec. 5, 2011, we placed the long-term ratings on the Republic of Italy on CreditWatch with negative implications. As a result, we are also placing the ratings on Iccrea Holding, Iccrea Banca, and Iccrea BancaImpresa on CreditWatch negative.
- The CreditWatch placement reflects the possibility that a sovereign downgrade and our view that the Banche di Credito Cooperativo's (BCC)network SACP is worsening, could affect the ratings on Iccrea Banking Group.
- The ratings on Iccrea Holding, Iccrea Banca, and Iccrea BancaImpresa are driven by our assessment of the creditworthiness of the BCC network, in which these banks have core status according to our group methodology.
- Under our revised bank criteria (published on Nov. 9, 2011) our ratings on the BCC network reflect our 'bbb+' anchor, which we apply to a commercial bank operating only in Italy, and its adequate business position, strong capital and earnings, weak risk position, above average funding, and strong liquidity.
- We expect to resolve the CreditWatch placement on the three entities once that on Italy has been resolved and once we are able to assess the impact of a worsening of the BCC network's SACP on the ratings of the three entities.

## Rating Action

As we previously mentioned on Dec. 7, 2011, Standard & Poor's Ratings Services has placed its 'BBB+/A-2' ratings on Iccrea Holding, Iccrea Banca, and Iccrea BancaImpresa on CreditWatch with negative implications. At the same time, we are also placing on CreditWatch negative all our ratings on Iccrea Banking Group senior unsecured issues, subordinated, and hybrid issues.

## Rationale

The CreditWatch placement reflects the possibility that a sovereign downgrade and our view that the Banche di Credito Cooperativo's (BCC)network SACP is worsening, could affect the ratings on Iccrea Banking Group.

The ratings on Iccrea Holding, Iccrea Banca, and Iccrea BancaImpresa are driven by our assessment of the creditworthiness of the Banche di Credito Cooperativo's (BCC) network, in which these banks have core status according

to our group methodology.

Standard & Poor's bases its ratings on BCC network on its 'bbb+' anchor, which we apply to a commercial bank operating only in Italy, and on the BCC network's "adequate" business position, "strong" capital and earnings, "weak" risk position, "above average" funding, and "strong" liquidity, as the criteria define these terms. The stand-alone credit profile (SACP) is 'bbb+'.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating (ICR). The 'bbb+' anchor draws on our view of the economic and industry risk in Italy where the BCC network mostly operates. We view Italy as a diversified and competitive economy with moderate credit risk. But Italy's public debt is very high. The imbalances in domestic asset prices and the buildup of leverage are low. With regard to industry risk, "systemwide funding" is a strength, we believe, because Italian banks generally rely to a limited degree on long- and short-term wholesale funding, be it domestic or cross-border. Regulatory standards are in line with those of Western European peers'.

We assess the BCC network's business position as "adequate", mainly reflecting its business stability in Italy. At year-end 2010, the BCC network consisted of about 415 rural cooperative banks spread throughout Italy, with more than 4,375 branches (about 13% of the total Italian banking system) and about 32,000 employees. With an aggregated 7.4% market share in terms of total loans, we view the BCC network's market position as comparable in size with that of the large Italian banks. Management at most of the individual BCC banks is generally somewhat weaker than it is at the larger domestic banks, in our view. This reflects a more-aggressive risk appetite, as demonstrated by higher-than-domestic-average lending growth during the 2009 crisis, and a concentrated decision-making process within a small management team. Additionally, the risk culture and the tools to measure and monitor risks are often unsophisticated at the individual BCC bank level. Governance standards compare unfavorably to the industry average, in our opinion.

Our assessment of the BCC network's capital and earnings as "strong" reflects our projection that the risk-adjusted capital (RAC) ratio will remain comfortably above 10% in the next 18 months. We currently view the BCC network's aggregated capital ratios as "strong," and we expect them to continue to compare well with domestic banks in the near-to-medium term. At the same time, we believe that the BCC network's earnings capacity is modest, with a three-year average earnings buffer lower than 20 basis points.

We assess BCC network's risk position as "weak." This reflects our view of its higher-than-peers' asset growth, a higher concentration in the real estate sector, and a lower coverage ratio for nonperforming assets (NPAs) compared with Italian peers. The BCC network's asset growth since 2000 has been much higher than the domestic average, particularly in the real estate sector. This has resulted in a higher-than-domestic-average concentration in what we believe is a risky sector in the current low-growth domestic economic

environment. Moreover, despite NPAs growing broadly in line with the industry average, BCC network's NPA coverage ratio has been very low; it was about 24% in 2010, well below the domestic average. This, in our opinion, exposes the network to the risk of emerging credit losses in the next few years, particularly when we also factor in the BCC network's relatively slow problem-loan recognition, compared with the domestic average.

We assess BCC network's funding as "above average" and its liquidity as "strong." Core customer deposits (including retail bonds) represent 98% of the total funding base. In our opinion, BCC network's funding position is sound with a significantly lower-than-domestic-average reliance on wholesale funding. The stable and sizable aggregated deposits base makes funding a key strength of the BCC system. Liquidity is "strong," in our opinion, given the recurring excess of liquidity invested in liquid assets (mainly government bonds). Moreover, the majority of interbank funding is within the BCC system (including Iccrea Holding).

The CreditWatch placement on the nondeferrable subordinated and junior subordinated debt of the operating entities of the group, Iccrea BancaImpresa and Iccrea Banca, also reflects changes made to our criteria for hybrids. Based on our updated hybrid criteria, we will rate this debt by notching down from the SACP of the operating entities. This reflects our view that group support (that is, the support from the BCC network, which is reflected in the issuer credit rating of these entities) would not necessarily extend to the subsidiaries' hybrid capital instruments.

## **CreditWatch**

We intend to resolve the CreditWatch after the CreditWatch on the Republic of Italy has been resolved and when we are able to assess the impact of a worsening of the BCC network SACP on the ratings on Iccrea Holding, Iccrea Banca, and Iccrea BancaImpresa. The creditworthiness of the Republic of Italy is indirectly linked to the economic and industry conditions for banks operating in Italy, which can affect the anchor and our assessments of business position, capital and earnings, risk position, funding, and liquidity.

If the sovereign rating is lowered, we could lower the ratings on Iccrea Holding, Iccrea Banca, and Iccrea BancaImpresa by up to two notches, based on our assessment of the BCC network's SACP. If the sovereign rating is affirmed, we are unlikely to change the ratings.

We will also resolve the CreditWatch on the subordinated and junior subordinated debt of the group operating entities on the basis of our assessment of the SACP of the operating entities, according to our updated bank methodology.

## Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Italy's Unsolicited 'A/A-1' Ratings Placed On CreditWatch Negative , Dec. 5, 2011

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Iccrea Holding SpA		
Counterparty Credit Rating	BBB+/Watch Neg/A-2	BBB+/Stable/A-2
Iccrea Banca SpA		
Counterparty Credit Rating	BBB+/Watch Neg/A-2	BBB+/Stable/A-2
Certificate Of Deposit	BBB+/Watch Neg/A-2	BBB+/A-2
Senior Unsecured	BBB+/Watch Neg	BBB+
Subordinated	BBB/Watch Neg	BBB
Iccrea BancaImpresa SpA		
Counterparty Credit Rating	BBB+/Watch Neg/A-2	BBB+/Stable/A-2
Certificate Of Deposit	BBB+/Watch Neg/A-2	BBB+/A-2
Senior Unsecured	BBB+/Watch Neg	BBB+
Subordinated	BBB/Watch Neg	BBB
Junior Subordinated	BB+/Watch Neg	BB+

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