MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Italian banks' deposit ratings and downgrades debt/issuer ratings

Global Credit Research - 25 Jan 2016

Action anticipates introduction of full depositor preference in Italy from 2019 and concludes review

London, 25 January 2016 -- Moody's Investors Service has today upgraded the deposit ratings of 16 Italian banks by one notch, of two banks by two notches, downgraded the senior unsecured debt/issuer ratings of five banks by one notch and affirmed the senior unsecured/issuer ratings of two banks. One bank's deposit rating remains on review for upgrade. The outlooks on the ratings are mostly stable.

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_187142

The rating action reflects the final approval by the Italian Government of a new hierarchy of claims for bank resolution in Italy that will apply from January 1, 2019 onwards, establishing full depositor preference over senior unsecured debt instruments.

Moody's has reflected the final approval by amending the capital structure used in its Advanced Loss Given Failure (LGF) analysis, in accordance with full depositor preference. Previously, Moody's "de jure" scenario reflected the pari passu ranking of deposits and senior debt.

Moody's rating action concludes its reviews initiated on October 29, 2015.

RATINGS RATIONALE

RATIONALE FOR THE DOWNGRADE OF DEBT AND UPGRADE OF DEPOSIT RATINGS

The action follows the final approval by the Italian Government of two Decrees -- Legislative Decrees No. 180 and No. 181 of November 16, 2015 -- which transpose the European BRRD into the Italian legal framework.

The Italian government will modify the priority of claims laid out in the Italian insolvency law by giving preference to all bank deposits -- including "junior" corporate and institutional deposits -- over senior unsecured creditors. The new hierarchy of claims will be enforced from 2019 onwards, in insolvency and, by extension, in resolution.

Moody's is reflecting the effect of the new legislation in advance of the adoption of the new hierarchy in 2019. This is because it believes that the authorities' clear intention to provide more protection to depositors than to senior creditors could have a bearing on decisions taken around resolution in the meantime.

As a result, Moody's has upgraded the deposit ratings of 18 banks. The new hierarchy of claims will increase the protection benefiting junior deposits as they no longer rank pari passu with senior unsecured liabilities, thereby reducing expected loss-given-failure.

By the same token, the volume of loss-absorbing senior unsecured liabilities will be reduced. The loss rates for senior creditors in the event of failure will therefore increase, other things being equal. In some cases, this increased loss-given-failure is sufficiently large to result in a lower rating. Moody's has therefore downgraded the senior unsecured debt/issuer ratings of five banks. Other ratings are not affected by the new legislation.

Moody's LGF analysis, according to its banking methodology of January 2016, assesses the impact of a bank's failure on the expected loss of each creditor class in response to different forms of resolution legal frameworks, firm-wide loss rates and liability structures, and based on analytical assumptions.

RATIONALE FOR THE OUTLOOKS

In most cases, Moody's has assigned the same outlook that was in place before the review, most of which were stable. In the following four cases, Moody's has revised the outlook, reflecting sensitivity of the rating to a small change to the liability structure:

LT Senior Unsecured/Issuer ratings

Banca Carige S.p.A. - developing

Banca Popolare di Milano S.C.A r.l. -- negative

Cassa Centrale Raiffeisen dell'Alto Adige -- negative

LT Deposit ratings

Banca Sella Holding - negative

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's could upgrade the Baseline Credit Assessments (BCAs) of the banks included in this rating action as a result of a stronger financial profile -- for example, a reduction in non-performing loans, or stronger capitalisation. Higher BCAs or changes in the liability structures, with increased volumes or subordination of liabilities, could result in higher debt and deposit ratings.

Conversely, Moody's could downgrade the BCAs if there were a failure to stabilise asset risk and improve capital and profitability. Downgrades of BCAs could result in downgrades of debt and deposit ratings. Moody's could also downgrade debt and deposit ratings because of a lower cushion of senior debt, for example owing to the redemption of bonds held by retail investors, or if there were a change in the legal hierarchy which increased the risk to these instruments.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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The relevant office for each credit rating is identified in "Debt/deal box" on the Ratings tab in the Debt/Deal List section of each issuer/entity page of the Website.

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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