

Big Changes In Standard & Poor's Rating Criteria

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Research Update: Italy-Based Veneto Banca 'BBB-/A-3' Ratings Placed On CreditWatch Negative On Increased Credit Risk For Italian Banks

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Overview

- With Italy facing a potentially deeper and more prolonged recession than we had originally anticipated, the vulnerability of Italian banks to the impact of rising loan losses has increased because of the combined effect of mounting problem assets and reduced coverage of loan-loss reserves.
- We believe the increased credit risk we see in Italy could weaken Veneto Banca's capital and earnings position.
- We are placing our 'BBB-/A-3' long- and short-term ratings on Veneto Banca on CreditWatch with negative implications.
- We aim to resolve the CreditWatch over the next three months, after we review the group's capital plans and assess whether we believe they continue to support our view of management's strong delivery track record in supporting adequate capital levels.

Rating Action

On Aug. 6, 2012, Standard & Poor's Ratings Services placed its long- and short-term 'BBB-/A-3' counterparty credit ratings on Italy-based Veneto Banca SCPA on CreditWatch with negative implications. We also placed our 'BB+' rating on Veneto Banca's nondeferrable subordinated debt and our 'BB-' rating on the bank's Tier 1 preference securities on CreditWatch negative.

Rationale

The CreditWatch placement reflects our view that the increased credit risk in the Italian economy could negatively affect Veneto Banca's capital, earnings, and business position more than we are currently factoring into our ratings. (See ["BICRA On Italy Maintained At Group '4', Economic Risk Score Revised To '5' On Increased Credit Risk For Italian Banks,"](#) published Aug. 3, 2012.)

With Italy facing a potentially deeper and more prolonged recession than we had originally anticipated, we think Italian banks' vulnerability to credit risk in the economy is rising. In this context, the combined effect of mounting problem assets and reduced coverage of loan-loss reserves makes banks more vulnerable to the impact of higher credit losses, particularly in the event of deterioration in the collateral values of assets.

The increased credit risk we see in the Italian economy has the potential to weaken Veneto Banca's RAC ratio to less than 7%. This would be below the minimum level (defined by our criteria) to maintain our current "adequate" assessment of Veneto Banca's capital and earnings over the next 18-24 months. This could happen if, in particular and in contrast to the bank's track record of shareholder support, Veneto Banca's capital position does not continue to benefit from capital strengthening actions in addition to shareholder contributions.

We continue to assess Veneto Banca's risk position as "moderate" because we believe the bank is more vulnerable than the system average to the increased credit risk we see in the Italian economy. In our opinion, a more severe recession will likely increase Veneto Banca's stock of problem assets--which we define as the sum of bad loans ("sofferenze") and watchlist loans ("incagli")--to high levels in 2012 and 2013, after experiencing a material increase throughout the 2009-2010 downturn. Veneto Banca's rapid expansion through acquisitions in past years also contributed to the increase.

At the same time, the bank's coverage of problem assets through provisioning, which is already low by international standards because of its extensive use of tangible collateral in its assessment of provisioning needs, stood at 30% in March 2012, compared with 40% for the system average at year-end 2011. Veneto Banca's stock of net nonperforming assets (including restructuring loans and loans past due) was 7% at year-end 2011, compared with 4.4% in 2008.

Our stand-alone credit profile (SACP) and ratings on Veneto Banca take into account the anchor of 'bbb' we assign to commercial banks operating in Italy (the anchor is our starting point for assigning a bank a long-term rating), as

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We're basing our current view of Veneto Banca's "adequate" business position, and our "adequate" liquidity on our current view of Veneto Banca's "adequate" business position, and our "adequate" liquidity. Read about changes in our criteria for rating collateralized debt obligations and U.S. residential mortgage-backed securities. **READ MORE >>**

We consider Veneto Banca to have "moderate" systemic importance and the Italian government to be "supportive" of its banking sector. We evaluate the likelihood of government support for Veneto Banca as "moderate," but we do not incorporate any uplift into the long-term rating from the SACP, given the 'BBB+' long-term rating on Italy.

CreditWatch

Standard & Poor's aim to resolve the CreditWatch placement within the next three months, after we receive further details about the bank's capital plans and assess whether we believe they continue to support our view of management's strong delivery track record in supporting adequate capital levels. Our review of the plans could affect our assessment of capital and earnings and business position.

Upon resolving the CreditWatch, we could affirm the long- and short-term counterparty credit ratings or lower them by one or two notches.

We could lower the rating by one notch if we revise our assessment of the bank's capital and earnings to "moderate" from "adequate." This could happen if we conclude that the shareholders' contribution and/or any further management plans to strengthen its capital will not materialize or if we anticipate that they will not be sufficient to maintain the RAC ratio at more than 7% over the next 12-18 months.

We could lower the ratings one notch further if we anticipate that there may be a departure from management's past strong execution track record, in particular of its supportive capital management, which would negatively affect our business position assessment.

Conversely, we could affirm the long- and short-term ratings if, all else being equal, we anticipate the RAC ratio will remain above 7% in the next 12-18 months supported by a consistent capital management with track record.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Watch Neg/A-3
SACP	bbb-
Anchor	bbb
Business Position	Adequate (0)
Capital and Earnings	Adequate (0)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)
Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

- [BICRA On Italy Maintained At Group '4', Economic Risk Score Revised To '5' On Increased Credit Risk For Italian Banks](#), Aug. 3, 2012
- [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

Ratings List

Ratings Affirmed; CreditWatch Action

	To	From
Veneto Banca SCPA		
Counterparty Credit Rating	BBB-/Watch Neg/A-3	BBB-/Negative/A-3
Certificate Of Deposit	BBB-/Watch Neg	BBB-
Senior Unsecured	BBB-/Watch Neg	BBB-
Subordinated	BB+/Watch Neg	BB+
Preferred Stock	BB-/Watch Neg	BB-

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected

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