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DBRS Downgrades Veneto Banca Scpa to BB (High), Negative Trend

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings Limited (DBRS) has today downgraded the ratings of Veneto Banca Scpa (Veneto Banca or the Bank) including the Senior Long Term Debt and Deposit Rating to BB (High) from BBB (low) and the Short-term Debt and Deposit Rating to R-3 from R-2 (low). The Trend on both ratings is Negative. DBRS has also lowered the Bank's Intrinsic Assessment to BB (High) from BBB (Low) while the support designation remains SA-3. With the downgrade, DBRS has concluded the Rating Review with Negative Implications which commenced on 26 November 2013. The Review considered the impact of the second asset quality investigation by the Bank of Italy (BoI), as well as steps taken by the Bank's to strengthen capital and governance.

The downgrade reflects DBRS' view that the capital measures completed by the Bank during the review period are insufficient to support the previous rating. Likewise, DBRS notes that a number of the challenges facing the Bank, particularly specific concerns linked to corporate governance and the organizational structure may only be resolved over a medium time frame. The Negative Trend reflects the specific challenges faced by Veneto Banca, as well as the negative economic conditions in Italy which contribute to pressure on the operations for Italian banks in general.

The second asset quality inspection by the BoI, which was completed in November 2013, revealed incremental weaknesses in Veneto Banca's asset quality over and above the levels that DBRS had expected. In DBRS' view, the Bank's overall financial profile has weakened further in terms of doubtful lending levels, higher credit costs and lower regulatory capital. Veneto Banca's Core Tier 1 ratio declined to 7% as of September 2013 and remained under pressure during the rating review period. DBRS notes that the Bank announced in December 2013 a capital plan which set out the potential early conversion of the EUR 350 million May 2014 convertible issue, as well as the potential sale of BIM (Banca Intermobiliare), Veneto Banca's private bank. Although completion of both could strengthen regulatory capital ratios by roughly 235 bps by June 2014, in DBRS' view the capital plan entails material execution risk due to complexity and the short time frame.

Furthermore, the second BoI inspection also highlighted pressure on the Bank to improve corporate governance which the Bank is now starting to address. Nonetheless, DBRS notes that Veneto Banca's management structure needs to evolve further in order to better reflect the current size and scope of banking operations.



In DBRS' view, the current regulatory pressure, which also includes the request to consider merger options, adds to the challenges faced by the Bank's management and may prove difficult to resolve quickly.

Nonetheless, successful execution by the Bank to both materially improve capital levels and to strengthen corporate governance, could contribute to a more supportive view of the rating by DBRS over the medium term. However, additional negative rating pressure could result if these concerns are not sufficiently addressed, and/or should further weakness become apparent via the upcoming European Central Bank asset quality review and European Banking Authority stress tests.

Notes:

All figures are in Euro (EUR) unless otherwise noted.

The principal methodology applicable is: the Global Methodology for Rating Banks and Banking Organisations. Other methodologies used include the DBRS Criteria: Support Assessment for Banks and Banking Organisations. The rating methodologies and criteria used in the analysis of this transaction can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include company reports and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period. DBRS's outlooks and ratings are under regular surveillance.

For further information on DBRS historic default rates published by the European Securities and Markets Administration ("ESMA") in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

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Rating Committee Chair: Roger Lister
Initial Rating Date: May 13, 2013
Most Recent Rating Update: November 26, 2013

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For additional information on this rating, please refer to the linking document located at:
<http://www.dbrs.com/research/236983/banks-and-banking-organisations-linking-document.pdf>

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Veneto Banca Scpa	Senior Long-Term Debt and Deposits	Downgraded	BB (high)	Neg	Feb 18, 2014
Veneto Banca Scpa	Short-Term Debt and Deposits	Downgraded	R-3	Neg	Feb 18, 2014

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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