

Research Update:

**Italian Bank Cassa di Risparmio
della Provincia di Teramo SpA
Ratings Lowered To 'BB+/B';
Outlook Negative**

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Italian Bank Cassa di Risparmio della Provincia di Teramo SpA Ratings Lowered To 'BB+/B'; Outlook Negative

Overview

- In our view, the domestic environment for Italian banks has worsened since July 2011, owing to weaker economic prospects and the higher cost of funding resulting from increasing yields on Italy's sovereign debt.
- As a result, we have revised down our Banking Industry Country Risk Assessment (BICRA) on the Republic of Italy to Group 3 from Group 2, on a scale of 1 to 10 (where 1 is the highest). A BICRA reflects our view of the strengths and weaknesses of a country's banking industry.
- In our view, Cassa di Risparmio della Provincia di Teramo's (Tercas') financial profile will be weakened by the worsening in Italy's domestic environment and heightened economic risk.
- We are therefore lowering our long- and short-term counterparty credit ratings on Tercas to 'BB+/B' from 'BBB/A-2'.
- The negative outlook reflects our view that Tercas' asset quality and capital position could deteriorate more than we currently expect.

Rating Action

On Oct. 18, 2011, Standard & Poor's Ratings Services lowered its long- and short-term counterparty credit ratings on Italy-based Cassa di Risparmio della Provincia di Teramo (Tercas) to 'BB+/B' from 'BBB/A-2'. The outlook is negative.

Rationale

The lowering of Tercas' long- and short-term counterparty credit ratings reflects our view that the increased economic and industry risks in Italy will further strain Tercas' financial profile. The lowering of the ratings also reflects our opinion that Tercas' asset quality and capital position has deteriorated more than we previously expected.

In our view, the domestic environment for Italian banks has worsened since July 2011 owing to weaker economic prospects and the higher cost of funding resulting from uncertainties surrounding Italian sovereign debt. As a result, we have revised down our Banking Industry Country Risk Assessment (BICRA) on the Republic of Italy to Group 3 from Group 2, on a scale of 1 to 10 (where 1 is the highest). A BICRA reflects our view of the strengths and weaknesses of a country's banking industry.

In our view, Tercas' profitability will likely be limited in the next two

years because of reduced prospects for credit growth, increases in the cost of funding, and a decline in fee income.

In our opinion, the slowdown in domestic economic growth in 2012 could impede the recovery in asset quality that we previously expected (see "Italian Banks Are Facing A Tricky Recovery," published April 14, 2011). In first-half 2011, Tercas' asset quality deteriorated further than we had previously anticipated and we expect it will continue to deteriorate over the next two years.

We expect Tercas' capital ratio to be lower than we previously factored into our ratings. We anticipate Tercas' risk-adjusted capital (RAC) ratio will not benefit from previously-planned and now-cancelled capital actions (such as an issuance of €50 million in Tier 1 instruments), and will not be well above the 8% we had previously incorporated into our ratings. Our view of the increased economic risk in Italy has also led us to revise down our estimate of the bank's Standard & Poor's risk-adjusted capital (RAC) ratio.

The ratings on Tercas continue to reflect our view of Tercas' solid local franchise in its home market, strong revenue generation, and sound liquidity. Offsetting factors include our view of Tercas' deteriorating asset quality and capital position in a still-fragile economic environment, sizable exposure to the small and midsize enterprise (SME) segment which increases credit risk in the loan book, and geographic concentration in the generally weak economic region of Abruzzo.

Outlook

The negative outlook reflects the fact that we could lower the ratings if Tercas is not able either to moderate its asset quality deterioration or to enhance its capital position to the extent that we currently anticipate.

Under our base-case scenario, we anticipate that Tercas' inflow of net nonperforming assets will be higher than the domestic average in 2011 and will keep accumulating in 2012 in line with the Italian banking system's average rate. We also expect net operating income to remain under pressure due to sluggish GDP growth and loan demand as well as the higher cost of funding linked to the rise in Italian government bond spreads, and competition for client funding. We expect Tercas' RAC ratio before diversification to be well above 7% in 2011.

If Tercas' asset quality were to deteriorate more than we currently expect, we could lower the ratings. We could also lower the ratings if we saw that Tercas was not able to successfully enhance its capital position to the extent that we currently anticipate, or if we saw a weakening of loss-absorption capacity beyond what we presently factor into the ratings.

Conversely, we could revise the outlook to stable if Tercas' asset quality stabilizes, if it manages to maintain its profitability above our expectations for 2012, and enhance its capital position.

Related Criteria And Research

Related Criteria

- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Bank Rating Analysis Methodology Profile, March 18, 2004

Related Research

- Italian Banks' Recovery Shifts Into Reverse As Italy's Sovereign Risk Escalates, Oct. 18, 2011

Ratings List

Downgraded

	To	From
Cassa di Risparmio della Provincia di Teramo SpA		
Counterparty Credit Rating	BB+/Negative/B	BBB/Negative/A-2
Certificate Of Deposit	BB+/B	BBB/A-2

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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 by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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