

Rating Action: Moody's downgrades Banca Tercas (Italy) to Baa2/P-2/D+; outlook stable

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Milan, January 04, 2011 -- Moody's Investors Service has today downgraded the standalone bank financial strength rating (BFSR) of Banca Tercas SpA (Banca Tercas) to D+ from C-, which now maps into a Baa3 on the long-term rating scale, from Baa1 previously. At the same time, its long-term deposit rating was downgraded to Baa2 from A3. The short-term deposit rating of P-2 was affirmed. All ratings have a stable outlook.

RATINGS RATIONALE

Moody's said that this rating action is the result of the acquisition by Banca Tercas of a 95% stake in neighbouring Banca Caripe Spa (Caripe, unrated) from Banco Popolare Societa Cooperativa (rated A2/D+/P-3), which is effective on December 31st 2010. The rating agency added that the downgrade of Banca Tercas's BFSR reflects the substantial decrease of the bank's capital adequacy (Tier 1 capital decreased from 11.64% at June 2010 to 7.10% on January 1st, 2011), as well as the challenges with regards to the integration process of Caripe, which is around half the size of Banca Tercas. Moody's said that these challenges are somewhat mitigated by the bank's envisioned measures to restore capital (which should result in a Tier 1 ratio of around 9% by year-end 2011), as well as the fact that Caripe is being acquired free of problem loans, which remain with Banco Popolare Societa Cooperativa. However Banca Tercas has no track record of integrating an acquired bank.

With this acquisition Banca Tercas will become leading local bank in the Abruzzo region, with a market share of about 17% of deposits and 11% of loans.

The downgrade of Banca Tercas's long-term deposit rating to Baa2 from A3 follows the downgrade of the bank's standalone BFSR. The bank's deposit rating benefits from Moody's expectation of a moderate probability of systemic support, resulting in a one-notch uplift from its Baa3 BCA.

Banca Tercas operates 112 branches in the region of Abruzzo in Italy, with total assets at June 2010 of EUR3.5 billion. Credit strengths include the bank's good market position in its home region and in the home town Teramo (market share for loans and deposits at 19% and 44%), its solid liquidity profile with significant retail funding and its strategy to remain focused on traditional banking in its local territory. Financials are satisfactory, although they have been weakening during the crisis.

Banca Caripe operates with 51 branches mainly in the region of Abruzzo, with a strong presence in the Province of Pescara, its home town. As of 30 June 2010, the bank had total assets of Eur1.6 billion. The bank was established in 1871 and became part of the Banco Popolare group in 2001. Tier1 ratio stood at 8.75% in June 2010 and the bank closed the first half of 2010 with net income of Eur5.6 million (2009: Eur1million, 2008: Eur7million). The remaining 5% shareholding is held by the local foundation PescarAbruzzo.

A positive outlook on the ratings could develop from (i) the successful integration of Caripe; (ii) increased profitability at a consolidated level; (iii) successful implementation of all envisioned capital measures; and/or (iv) credit losses at an aggregate level in line with current expectations.

Downward pressure on the ratings could result from (i) a decrease in capital and profitability associated with higher than expected credit losses; and/or (ii) difficulties arising from the integration process.

The principal methodologies used in this rating were "Bank Financial Strength Ratings: Global Methodology" published in February 2007, and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" published in March 2007. Moody's previous rating action on Banca Tercas was implemented on 18 June 2009, when the ratings were affirmed.

Headquartered in Teramo, Italy, Banca Tercas SpA reported total consolidated assets of EUR3.5 billion at June 2010.

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