

Summary:

Cassa di Risparmio della Provincia di Teramo SpA

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Summary:

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Credit Rating: BBB/Negative/A-2

Rationale

The ratings on Italian bank Cassa di Risparmio della Provincia di Teramo SpA (Tercas) are primarily supported by Standard & Poor's Ratings Services' perception of the bank's solid local franchise in its home market, strong revenue generation, and sound liquidity. Offsetting factors include our view of Tercas' deteriorating asset quality 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 a generally weak economic region.

Tercas is a local savings bank with leading market shares in the province of Teramo (44% of the province's deposits and 19% of its total loans), which is located in the central Italian region of Abruzzo (not rated). We consider Tercas' strong local franchise to be a key positive rating factor, since it enables the bank to maintain a stable and cheap funding base, mainly comprising retail-client deposits. In our view, the recent acquisition and integration of Banca Caripe SpA (Caripe) somewhat benefits Tercas' business profile since it increases the bank's critical size, though the resulting entity remains geographically concentrated in the Abruzzo region.

We believe that Tercas' revenue generation will remain adequate, preserving the bank's loss absorption capacity at a level higher than 160 basis points. We think that the bank will remain profitable, despite pressures related to still meaningful provisioning needs.

We view Tercas' retail funding base as stable, supporting the ratings. The bank had a loans-to-deposit ratio of about 110% at year-end 2010 and very limited reliance on wholesale funding, which represented roughly 12% of total funding at year-end 2010.

The ratings also factor in the benefits we see for Tercas related to the successful completion of all of the measures it is taking to enhance its capitalization, including the issuance of €50 million of Tier 1 instruments and the sale of a minority stake in Caripe. Specifically, we incorporate into the ratings our estimate that Standard & Poor's measure of risk-adjusted capital (RAC) before adjustment for diversification will exceed 8% in 2011.

We consider Tercas' asset quality to be weak, however, reflecting the bank's significant exposure to the inherently riskier SME segment and its high single-name concentration compared with that of international peers. We observed a more adverse trend in asset quality at Tercas in the second half of 2010 than we had anticipated, surpassing the domestic industry average. Tercas' (excluding Caripe) gross nonperforming asset (NPA) ratio at year-end 2010 reached 11.9%, up from 8.5% in 2009. Including the acquisition of Caripe, the NPA ratio was about 10.7% at year-end 2010. Caripe's integration is unlikely, in our opinion, to result in a worsening of Tercas' credit risk profile, since Tercas acquired Caripe's loan portfolio net of most of its nonperforming loans.

Outlook

The negative outlook indicates the possibility of a downgrade if Tercas is unable to moderate its asset quality deterioration, and, particularly, if the deterioration continues to outpace the average for the domestic industry.

Our base-case scenario for 2011 at the system level foresees a net inflow of NPAs of 1.6% of total customer loans, mostly driven by "sofferenze" (problem loans). If Tercas' asset quality deteriorates to a greater extent than we currently anticipate for the system, we could lower the ratings.

We could also lower the ratings if Tercas is unable to successfully complete all of its planned measures to sustain its capital, and if, consequently, our RAC ratio before diversification does not stand comfortably above 8%. Even at this 8% level, we still do not consider Tercas' capital to be a supporting factor for the ratings, given Tercas' weak asset quality--particularly its low nonperforming loans reserve coverage, which stood at 23% at year-end 2010. A downgrade would be possible, in addition, if we saw a weakening of Tercas' loss absorption capacity; we currently anticipate that the bank's loss absorption capacity will improve in 2011 relative to the 2010 level of 163 basis points.

Conversely, we could revise the outlook to stable if Tercas' asset quality stabilizes and if the bank manages to maintain its profitability above our forecasts for 2011 and enhance its capital position as planned.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Bank Rating Analysis Methodology Profile, March 18, 2004

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