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Cassa di Risparmio della Provincia di Teramo SpA

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Cassa di Risparmio della Provincia di Teramo SpA

Major Rating Factors

Strengths:

- Sound local franchise
- Strong capitalization
- Sound liquidity
- Satisfactory profitability

Counterparty Credit Rating

BBB+/Stable/A-2

Weaknesses:

- Vulnerability to current deterioration in domestic economy due to past sustained lending growth
- Geographic business concentration in an economically weak region
- Challenging expansion strategy in areas outside home territory

Rationale

The ratings on Italy-based Cassa di Risparmio della Provincia di Teramo SpA (Tercas) are primarily supported by a sound local franchise in the bank's home territories, as well as strong capitalization, good liquidity, and still satisfactory profitability. Offsetting factors include the bank's vulnerability to the current deterioration in the domestic economy, due to past sustained lending growth, and its geographic business concentration in a region with a generally weak economic profile. Another negative factor is the bank's challenging expansion strategy in areas outside its home territory.

Tercas is a local savings bank with a strong market share (57% of deposits) in the province of Teramo, in the central Italian Region of Abruzzo (not rated). Its strong local franchise is a key positive rating factor.

Capital ratios are strong, which is necessary to counterbalance the bank's high credit risk profile and the possibility that it will expand in the future through small bank acquisitions. The Tier 1 capital ratio stood at 11.5% on June 30, 2008, and compares well with those of rated peers. The bank's good earnings retention policy, coupled with the disposal of nonstrategic investments, should allow it to maintain solid capital in the near to medium term. Overall profitability is satisfactory, in line with that of regional peers, and we expect it to be quite resilient in the medium term. Successful measures to contain cost growth despite network expansion should help to sustain efficiency.

The bank manages its enterprise risk adequately. Tercas' principal source of risk is its customer loan portfolio, which is mainly composed of loans to small and midsized enterprises (SMEs). The bank's financial profile also suffers from its vulnerability to the current deterioration in the domestic economy, due to past sustained lending growth, and its geographic business concentration in a region with a generally weak economic profile. Another risk factor is its ongoing expansion strategy outside its home territory. Single-name concentration is higher than for international peers, but in line with levels at domestic peers.

Outlook

The stable outlook reflects Standard & Poor's Ratings Services' expectation that Tercas will continue to maintain an adequate financial profile over the next few years. Ratings factor in a limited credit risk deterioration in light of the weakening domestic economy. With the aim of diversifying geographically, Tercas is expanding its network outside its home markets. We will monitor how the bank copes with the potential credit risk associated with this expansion. The maintenance of Tercas' current capital ratios is necessary in light of the bank's expansion plan.

Downward pressure on the ratings could mainly stem from a deterioration of the bank's capitalization and from a more pronounced than anticipated deterioration in asset quality that impairs Tercas' financial profile. An improvement in the bank's credit risk profile, coupled with a prudent expansion strategy, would be beneficial to the ratings.

Profile: Sound Local Franchise

With total assets of €3.5 billion on June 30, 2008, Tercas is a small savings bank located in the central Italian Region of Abruzzo, the economic profile of which is slightly weaker than that of northern Italian regions. The bank's customers are mainly households and SMEs, representing roughly 20% and 64% respectively of its total loan portfolio. Tercas' limited ancillary and nontraditional banking services rely on product distribution agreements with several Italian and European banking providers of retail wealth management products.

The bank's strong local franchise is a key positive rating factor. On June 30, 2008, the bank had 106 branches, of which 76 were in Abruzzo. Tercas has a strong market share of about 15% in deposits and 10% in loans in this region. In Teramo province, the bank's traditional stronghold, Tercas commanded leading market shares of 57% in deposits and 34% in loans on March 31, 2008.

Support And Ownership: Still Foundation Controlled

We consider Italy as a supportive country, which means that we do not give the long-term counterparty credit rating on Tercas any uplift from the bank's stand-alone creditworthiness because of potential government support. But the credit ratings on the bank benefit implicitly from the country's supportive institutional framework.

Tercas is a savings bank founded in 1939. In September 2006, its ownership structure was modified by a public offering to retail clients and private investors, representing 15% and 13.8% of the bank's capital respectively. The bank's employees hold a further 1.2%. Through the public offering, the banking foundation Fondazione CR Provincia di Teramo, which historically controlled 80% of the bank's capital, lowered its stake to 65%, while affirming its willingness to maintain a controlling stake in Tercas. Cambria Invest, a privately owned investment advisory firm, owns the remaining 5%.

In April 2007, Tercas reached an agreement with Credito Valtellinese (not rated) which took a 5% stake in Tercas capital. In 2007 and 2008 Groupama S.A. (A+/Stable/--) agreed to enter Tercas capital (with stakes of 1.9%)--buying part of the private investors' holdings--with the aim of setting up industrial agreements allowing Tercas to sell the company's insurance products.

Strategy: Preserve Capitalization And Liquidity

As result of changed Italian economic and market conditions, management strategy is now focused on preserving the bank's capitalization and liquidity. For this purpose and with the aim of controlling the bank's credit risk profile, Tercas started to slow down lending growth.

Despite the lending slowdown, Tercas will continue its challenging expansion strategy in the coming years, opening new branches in the northern Adriatic area in particular, and in Rome. The bank's strategic plan envisages the opening of about 16 branches in the 2008-2009 period, almost in line with the number of 2005-2007 openings. The bank does not rule out the acquisition of a small bank in a neighboring area instead of branch openings. Standard & Poor's views positively the bank's willingness to lower its geographic business concentration, but will monitor the expansion of Tercas' loan portfolio and network in the new and still unknown areas, which could lead to an increase in operational and credit risk. Despite its expansion plans, the bank is set to keep its core business concentrated in its original stronghold region of Abruzzo. .

Risk Profile And Management: Exposure To Credit Risk Drives Risk Profile

Overall risk management is adequate. The bank has a good funding profile thanks to the preponderance of retail funds. Its conservative market risk approach counterbalances credit risk, which is its principal source of risk.

Enterprise risk management: adequate

Enterprise risk management, although not sophisticated, is adequate to support Tercas' credit activity. The bank's overall positive track record in managing credit risk in the past five years supports our view. To lower its market risk profile, Tercas will transfer the proprietary securities portfolio into a capital guarantee fund.

Credit risk: affected by past years' fast lending growth and region's economic weakness

Tercas' principal source of risk is its customer loan portfolio, dominating the balance sheet at 80% of total assets as of June 30, 2008. Tercas' high portion of loans to SMEs, which intrinsically have high expected losses and represent about 65% of its total portfolio, affects its credit risk profile. This SME exposure, plus a still high geographic concentration in a region with a generally weak economic profile, leaves the bank vulnerable to a potential downturn of the local economy. Our ratings incorporate a moderate weakening of asset quality metrics in the medium term.

Another source of credit risk is the fast lending growth experienced in the past five years, which has resulted in a still unseasoned portfolio. Due to network expansion, the loan portfolio has developed at double-digit rates. We expect a low growth pace of the lending portfolio in 2008-2009 mainly as result of a more strict credit policy in a difficult economic environment.

Single-name concentration is higher than for international peers, but is in line with levels at domestic peers, and is coupled with an increased top client turnover rate. Tercas' net exposure to its top 20 clients represented about 1.1x adjusted total equity (ATE) on June 30, 2008, almost in line with a year earlier.

We expect Tercas' asset quality indicators to moderately worsen due to higher inflows of nonperforming assets (NPAs) in 2008 and 2009 compared with 2007, because of the unseasoned portfolio and the economic difficulties facing domestic SMEs. The bank's asset quality metrics, improved in the past until 2007, are now in line with those

of peers. To reduce nonperforming loans (NPLs), the bank carried out a securitization in 2000 of €73 million of "sofferenze" (NPLs, at net book value). In 2006 and 2007, the sale of almost all of its NPLs (€45 million and €29 million, respectively, with no credit risk retained) contributed to further reducing its ratio of gross NPAs (including sofferenze and "incagli") to total loans to 2%, compared with 4% at year-end 2005.

The cost of credit risk on June 30, 2008, stood at a high 74 basis points (bps). The strong increase compared with year-end 2007 (45 bps) is mainly related to charge-offs linked to still high inflows of NPAs and to a more severe policy, whose aim is to have a clean portfolio in 2009 when the bank plans to carry out an NPL sale. The bank's policy of carrying out a sale of NPLs every one to two years, results in a historically high volatility in the yearly cost of credit. This is due to higher specific provisions linked to the sold NPLs and to changes in loss given default rates which affect the generic provisions for "in-bonis" (performing) loans.

Funding and liquidity risk: supported by a good customer deposit base

Thanks to the slowdown of loan growth, Tercas improved its already good funding profile that compares well with rated peers'. This is the result of a stable base of customer deposits, which represented 72% of total funding on June 30, 2008, including the bank's own bonds placed with retail clients.

The short-term liquidity profile is good, supported by a positive net interbank position (as of mid-October 2008), a sound cash reserve, and €300 million of Tercas asset-backed securities eligible for European Central Bank funding.

The bank has diversified funding in the past few years by increasing the weight of retail bonds, with the aim of reducing the duration mismatch between long-term loans (mortgages represent 57% of customer lending) and short-term client deposits (73% of total direct deposits). Also to reduce duration mismatch, the bank has €245 million outstanding in the domestic institutional bond market. In December 2006 and 2007, the bank issued €100 million of subordinated debt (lower Tier 2), reserved for institutional investors.

The loans-to-stable funds ratio improved to 118% on June 30, 2008, compared with 128% one year earlier. We expect Tercas' liquidity profile to remain good, with medium-term lending production funded by customer deposits and retail bond placements. Tercas issued about €200 million in residential mortgage-backed securities (RMBS) and securitized about €160 million in performing SME loans in 2008, which also boosted the bank's liquidity. Tercas retains junior notes for an amount of about 15% of total notes issued.

Market and interest risk: limited

Standard & Poor's views positively the bank's conservative approach to trading risk and lack of appetite for complex financial products. Market risk in the securities portfolio is contained. On June 30, 2008, the securities portfolio was mainly composed of Italian and foreign government bonds (75%) and other highly rated corporate securities (22%). Equity accounted for a limited 2% of the portfolio. During the first half of 2008, the average value-at-risk (99% confidence interval, 10-day holding period) on the trading portfolio was a low €146,000 (0.1% of ATE). With the aim of lowering its market risk profile, Tercas will transfer the proprietary securities portfolio not eligible for funding into a capital guarantee fund.

Profitability: Satisfactory Compared With Peers' In A Difficult Economic Environment

We expect overall profitability, although challenged by a difficult economic environment, to remain satisfactory

compared with peers', underpinned by stable revenue generation capacity and the capability to contain cost growth despite network expansion (as demonstrated in the past few years). The cost-to-income ratio is set to remain well below 60% in 2008 and 2009, with a satisfactory return on assets (1.0% on June 30, 2008) compared with peers'.

Net interest income generated by traditional lending activities comprised the bulk of Tercas' revenue flow, and accounted for more than two-thirds of operating revenues in the past five years. Both lending volume growth and widening interest spreads since 2007 supported this good source of revenues. In 2008, profitability should be affected by trading losses (mainly from securities mark-to-market) and lower growth of net interest income as result of almost flat lending volumes. We think 2009 results will be resilient. Decreasing interest rates should be partly compensated by a lack of trading losses, increasing profitability of branches opened in the past, and cost control. Traditional banking services generate most of the fee income.

Capital: Strong

Tercas' capital level is strong, which is necessary in light of the bank's expansion plan and its weaker than peers' credit risk profile. Tercas' capital compares well with that of rated peers. The Tier 1 capital ratio stood at a solid 11.5% on June 30, 2008. We believe that the good earnings retention policy, coupled with the disposal of nonstrategic investments, should allow the bank to maintain solid capital in the near to medium term.

Table 1

| Cassa di Risparmio della Provincia di Teramo SpA Balance Sheet Statistics | | | | | | | | | | | | |
|---|------------------------|-------|-------|-------|-------|-------|-----------------------------------|-------|-------|-------|-------|-------|
| (Mil. €) | --Year ended Dec. 31-- | | | | | | Breakdown as a % of assets (adj.) | | | | | |
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| Assets | | | | | | | | | | | | |
| Cash and money market instruments | 278 | 127 | 81 | 217 | 401 | 493 | 7.87 | 3.61 | 2.62 | 7.91 | 17.27 | 22.28 |
| Securities | 360 | 404 | 594 | 651 | 432 | 374 | 10.20 | 11.51 | 19.33 | 23.78 | 18.59 | 16.91 |
| Trading securities (marked to market) | 257 | 271 | 580 | 639 | 0 | N.A. | 7.28 | 7.73 | 18.87 | 23.35 | 0.00 | N.A. |
| Nontrading securities | 103 | 133 | 14 | 12 | 432 | 374 | 2.92 | 3.78 | 0.46 | 0.43 | 18.59 | 16.91 |
| Customer loans (gross) | 2,811 | 2,726 | 2,320 | 1,837 | 1,430 | 1,264 | 79.68 | 77.63 | 75.45 | 67.07 | 61.55 | 57.17 |
| Public sector/government | 28 | 30 | 29 | 48 | 41 | 37 | 0.79 | 0.86 | 0.95 | 1.74 | 1.76 | 1.66 |
| Residential real estate loans | N.A. | 427 | 353 | N.A. | N.A. | N.A. | N.A. | 12.17 | 11.49 | N.A. | N.A. | N.A. |
| Total real estate loans | N.A. | N.A. | N.A. | N.A. | 607 | 492 | N.A. | N.A. | N.A. | N.A. | 26.13 | 22.26 |
| Commercial real estate loans | N.A. | 280 | 238 | N.A. | N.A. | N.A. | N.A. | 7.98 | 7.74 | N.A. | N.A. | N.A. |
| All other loans | 2,783 | 1,989 | 1,699 | 1,789 | 782 | 735 | 78.90 | 56.63 | 55.27 | 65.32 | 33.65 | 33.24 |
| Loan loss reserves | 38 | 28 | 38 | 61 | 52 | 44 | 1.08 | 0.79 | 1.22 | 2.22 | 2.22 | 1.97 |
| Customer loans (net) | 2,773 | 2,698 | 2,282 | 1,776 | 1,379 | 1,220 | 78.60 | 76.84 | 74.23 | 64.85 | 59.32 | 55.20 |
| Earning assets | 3,418 | 3,210 | 2,924 | 2,676 | 2,222 | 2,069 | 96.90 | 91.40 | 95.12 | 97.71 | 95.60 | 93.60 |
| Equity interests/participations (nonfinancial) | 0 | 0 | 0 | 0 | 5 | 3 | 0.00 | 0.00 | 0.00 | 0.00 | 0.20 | 0.13 |
| Intangibles (nonservicing) | 0 | 0 | 0 | 0 | 2 | 2 | 0.01 | 0.01 | 0.01 | 0.01 | 0.11 | 0.10 |

Table 1

Cassa di Risparmio della Provincia di Teramo SpA Balance Sheet Statistics (cont.)

| | | | | | | |
|-----------------------|-----|-----|-----|-----|-----|-----|
| Adjusted total equity | 322 | 309 | 288 | 267 | 251 | 237 |
|-----------------------|-----|-----|-----|-----|-----|-----|

*Data as of June 30, 2008, unaudited, consolidated, and prepared according to IFRS; ratios annualized where appropriate. Year-end financial statements are audited, consolidated, and prepared according to Italian GAAP until year-end 2004, and prepared according to IFRS from 2005 on. N.A.--Not available.

Table 2

Cassa di Risparmio della Provincia di Teramo SpA Profit And Loss Statement Statistics

| (Mil. €) | --Year ended Dec. 31-- | | | | | | Adj. avg. assets (%) | | | | | |
|---|------------------------|------|------|------|------|------|----------------------|--------|------|------|------|------|
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| Profitability | | | | | | | | | | | | |
| Interest income | 105 | 190 | 139 | 101 | 91 | 94 | 5.97 | 5.76 | 4.79 | 3.98 | 4.03 | 4.35 |
| Interest expense | 42 | 65 | 35 | 20 | 18 | 21 | 2.36 | 1.97 | 1.20 | 0.80 | 0.80 | 0.98 |
| Net interest income | 64 | 125 | 104 | 80 | 73 | 73 | 3.61 | 3.80 | 3.59 | 3.17 | 3.23 | 3.36 |
| Operating noninterest income | 20 | 47 | 48 | 45 | 39 | 34 | 1.12 | 1.42 | 1.64 | 1.76 | 1.74 | 1.56 |
| Fees and commissions | 17 | 35 | 35 | 29 | 26 | 22 | 0.96 | 1.06 | 1.19 | 1.16 | 1.16 | 1.03 |
| Equity in earnings of unconsolidated subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| Trading gains | (5) | (1) | 1 | 3 | 4 | 2 | (0.27) | (0.02) | 0.03 | 0.10 | 0.16 | 0.10 |
| Other market-sensitive income | 0 | (2) | 0 | 2 | N.A. | N.A. | 0.02 | (0.07) | 0.02 | 0.07 | N.A. | N.A. |
| Other noninterest income | 7 | 15 | 12 | 11 | 10 | 9 | 0.42 | 0.44 | 0.40 | 0.43 | 0.42 | 0.43 |
| Operating revenues | 83 | 172 | 152 | 125 | 113 | 107 | 4.74 | 5.21 | 5.23 | 4.93 | 4.97 | 4.92 |
| Noninterest expenses | 48 | 92 | 85 | 83 | 75 | 71 | 2.70 | 2.80 | 2.93 | 3.30 | 3.30 | 3.28 |
| Personnel expenses | 28 | 53 | 52 | 50 | 46 | 44 | 1.59 | 1.60 | 1.80 | 1.97 | 2.03 | 2.04 |
| Other general and administrative expense | 18 | 37 | 31 | 31 | 26 | 24 | 1.04 | 1.12 | 1.06 | 1.24 | 1.13 | 1.09 |
| Depreciation | 1 | 3 | 2 | 2 | 3 | 3 | 0.07 | 0.09 | 0.07 | 0.08 | 0.14 | 0.15 |
| Net operating income before loss provisions | 36 | 79 | 67 | 41 | 38 | 36 | 2.04 | 2.41 | 2.31 | 1.64 | 1.67 | 1.64 |
| Credit loss provisions (net new) | 10 | 11 | 14 | 4 | 12 | 11 | 0.58 | 0.34 | 0.50 | 0.16 | 0.55 | 0.50 |
| Net operating income after loss provisions | 26 | 68 | 53 | 37 | 25 | 25 | 1.46 | 2.07 | 1.81 | 1.47 | 1.12 | 1.14 |
| Nonrecurring/special income | 7 | 7 | 0 | 0 | 9 | 4 | 0.38 | 0.21 | 0.00 | 0.00 | 0.41 | 0.19 |
| General banking risk provisions | 0 | 0 | 0 | 0 | 6 | 4 | 0.00 | 0.00 | 0.00 | 0.00 | 0.26 | 0.19 |
| Nonrecurring/special expense | 0 | 2 | 1 | 6 | 6 | 2 | 0.00 | 0.06 | 0.04 | 0.23 | 0.27 | 0.10 |
| Pretax profit | 32 | 73 | 52 | 32 | 23 | 23 | 1.85 | 2.23 | 1.78 | 1.25 | 1.00 | 1.04 |
| Tax expense/credit | 10 | 32 | 24 | 14 | 11 | 12 | 0.59 | 0.96 | 0.82 | 0.55 | 0.51 | 0.57 |
| Net income before minority interest | 22 | 42 | 28 | 18 | 11 | 10 | 1.26 | 1.26 | 0.95 | 0.70 | 0.49 | 0.47 |
| Minority interest in consolidated subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net income before extraordinary | 22 | 42 | 28 | 18 | 11 | 10 | 1.26 | 1.26 | 0.95 | 0.70 | 0.49 | 0.47 |
| Net income after extraordinary | 22 | 42 | 28 | 18 | 11 | 10 | 1.26 | 1.26 | 0.95 | 0.70 | 0.49 | 0.47 |

Table 2

| Cassa di Risparmio della Provincia di Teramo SpA Profit And Loss Statement Statistics (cont.) | | | | | | | | | | | |
|---|--------------|-------------|-------------|-------------|-------------|-------------|------|------|------|------|-----------|
| Core Earnings Reconciliation | | | | | | | | | | | |
| Net Income (before Minority Interest) | 22 | 42 | 28 | 18 | 11 | 10 | | | | | |
| - Nonrecurring/Special Income | (7) | (7) | (0) | (0) | (9) | (4) | | | | | |
| + Nonrecurring/Special Expense | 0 | 2 | 1 | 6 | 6 | 2 | | | | | |
| +/- Tax Impact of Adjustments | 2 | 2 | (0) | (2) | 2 | 1 | | | | | |
| + General banking risk provisions | 0 | 0 | 0 | 0 | 6 | 4 | | | | | |
| Core earnings | 18 | 39 | 28 | 21 | 16 | 14 | 1.00 | 1.18 | 0.97 | 0.82 | 0.69 0.62 |
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 | | | | | |
| Asset Quality | | | | | | | | | | | |
| Nonperforming assets | 70 | 48 | 48 | 74 | 70 | 51 | | | | | |
| Nonaccrual loans | 70 | 48 | 48 | 74 | 70 | 51 | | | | | |
| Restructured loans | 0 | 0 | 0 | 0 | 0 | 0 | | | | | |
| Classified loans (substandard, doubtful, loss) | N.A. | N.A. | 18 | 14 | N.A. | N.A. | | | | | |
| Average balance sheet | | | | | | | | | | | |
| Average customer loans | 2,736 | 2,490 | 2,029 | 1,577 | 1,299 | 1,109 | | | | | |
| Average earning assets | 3,314 | 3,067 | 2,800 | 2,449 | 2,145 | 2,000 | | | | | |
| Average assets | 3,520 | 3,293 | 2,907 | 2,533 | 2,269 | 2,174 | | | | | |
| Average total deposits | 1,938 | 1,920 | 2,002 | 2,000 | 1,775 | 1,653 | | | | | |
| Average interest-bearing liabilities | 3,038 | 2,822 | 2,439 | 2,078 | 1,847 | 1,788 | | | | | |
| Average common equity | 330 | 315 | 291 | 271 | 256 | 243 | | | | | |
| Average adjusted assets | 3,520 | 3,293 | 2,906 | 2,531 | 2,267 | 2,173 | | | | | |
| Other data | | | | | | | | | | | |
| Number of employees (end of period, actual) | 833 | 813 | 770 | N.A. | 791 | 764 | | | | | |
| Number of branches | 106 | 105 | 101 | 92 | 85 | 82 | | | | | |
| Total assets under management | 606 | 778 | 817 | 791 | 672 | 596 | | | | | |
| Assets under administration | 1,043 | 1,190 | 995 | 947 | 942 | 937 | | | | | |
| Off-balance-sheet credit equivalents | 0 | 0 | 0 | 0 | 216 | 287 | | | | | |

*Data as of June 30, 2008, unaudited, consolidated, and prepared according to IFRS; ratios annualized where appropriate. Year-end financial statements are audited, consolidated, and prepared according to Italian GAAP until year-end 2004, and prepared according to IFRS from 2005 on. N.A.--Not available.

Table 3

| Cassa di Risparmio della Provincia di Teramo SpA Ratio Analysis | | | | | | |
|---|------------------------|-------|-------|-------|-------|-------|
| | --Year ended Dec. 31-- | | | | | |
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| ANNUAL GROWTH (%) | | | | | | |
| Customer loans (gross) | 6.23 | 17.54 | 26.29 | 28.42 | 13.19 | 21.50 |

Table 3

| Cassa di Risparmio della Provincia di Teramo SpA Ratio Analysis (cont.) | | | | | | |
|--|--------------|-------------|-------------|-------------|-------------|-------------|
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| Loss reserves | 74.46 | (25.87) | (38.33) | 12.46 | 8.89 | 3.56 |
| Adjusted assets | 0.92 | 14.22 | 12.27 | 17.84 | 5.13 | 3.55 |
| Customer deposits | 2.15 | (2.18) | (4.87) | 11.17 | 14.96 | 9.24 |
| Total equity | 3.52 | 7.54 | 7.93 | 6.72 | 5.91 | 4.85 |
| Operating revenues | (2.86) | 12.89 | 21.79 | 10.79 | 5.43 | 6.53 |
| Noninterest expense | 2.90 | 8.62 | 1.86 | 11.52 | 4.97 | 0.87 |
| Net operating income before provisions | (9.56) | 18.31 | 61.96 | 9.34 | 6.36 | 20.00 |
| Loan loss provisions | 81.37 | (22.61) | 246.67 | (66.50) | 14.83 | 39.98 |
| Net operating income after provisions | (24.45) | 29.52 | 41.33 | 46.36 | 2.67 | 12.97 |
| Pretax profit | (11.32) | 41.98 | 63.38 | 39.54 | 0.36 | 12.42 |
| Net income | 6.42 | 50.10 | 56.71 | 58.64 | 8.74 | 5.38 |
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| PROFITABILITY (%) | | | | | | |
| Interest Margin Analysis | | | | | | |
| Net interest income (taxable equiv.)/avg. earning assets | 3.84 | 4.08 | 3.73 | 3.28 | 3.41 | 3.65 |
| Net interest spread | 3.61 | 3.89 | 3.54 | 3.13 | 3.28 | 3.53 |
| Interest income (taxable equiv.)/avg. earning assets | 6.34 | 6.19 | 4.98 | 4.11 | 4.26 | 4.72 |
| Interest expense/avg. interest-bearing liabilities | 2.73 | 2.29 | 1.43 | 0.98 | 0.99 | 1.19 |
| Revenue Analysis | | | | | | |
| Net interest income/revenues | 76.29 | 72.83 | 68.66 | 64.29 | 64.97 | 68.37 |
| Fee income/revenues | 20.29 | 20.28 | 22.81 | 23.42 | 23.31 | 20.85 |
| Market-sensitive income/revenues | (5.38) | (1.76) | 0.94 | 3.53 | 3.25 | 1.99 |
| Noninterest income/revenues | 23.71 | 27.17 | 31.34 | 35.71 | 35.03 | 31.63 |
| Personnel expense/revenues | 33.58 | 30.60 | 34.41 | 40.01 | 40.74 | 41.53 |
| Noninterest expense/revenues | 56.97 | 53.78 | 55.90 | 66.84 | 66.40 | 66.69 |
| Noninterest expense/revenues less investment gains | 57.16 | 53.04 | 56.08 | 67.84 | 66.40 | 66.69 |
| Net operating income before provision/revenues | 43.03 | 46.22 | 44.10 | 33.16 | 33.60 | 33.31 |
| Net operating income after provisions/revenues | 30.89 | 39.72 | 34.62 | 29.83 | 22.58 | 23.19 |
| New loan loss provisions/revenues | 12.14 | 6.50 | 9.48 | 3.33 | 11.02 | 10.12 |
| Net nonrecurring/abnormal income/revenues | 8.07 | 2.96 | (0.68) | (4.53) | (2.50) | (2.09) |
| Pretax profit/revenues | 38.96 | 42.68 | 33.94 | 25.30 | 20.08 | 21.10 |
| Tax/pretax profit | 31.85 | 43.21 | 46.28 | 44.00 | 50.74 | 54.53 |
| Core Earnings/Revenues | 21.05 | 22.55 | 18.59 | 16.71 | 13.82 | 12.63 |
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| Other Returns | | | | | | |
| Pretax profit/avg. risk assets (%) | 2.33 | 2.79 | 2.35 | 1.82 | 1.50 | 1.57 |
| Revenues/avg. risk assets (%) | 5.98 | 6.53 | 6.92 | 7.20 | 7.45 | 7.45 |
| Net operating income before LLP/LLP | 354.46 | 710.87 | 464.98 | 995.27 | 304.90 | 329.16 |
| Net operating income before loss provisions/avg. risk assets (%) | 2.57 | 3.02 | 3.05 | 2.39 | 2.50 | 2.48 |
| Net operating income after loss provisions/avg. risk assets (%) | 1.85 | 2.59 | 2.40 | 2.15 | 1.68 | 1.73 |

Table 3

| Cassa di Risparmio della Provincia di Teramo SpA Ratio Analysis (cont.) | | | | | | |
|--|--------------|-------------|-------------|-------------|-------------|-------------|
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| Net income before minority interest/avg. adjusted assets | 1.26 | 1.26 | 0.95 | 0.70 | 0.49 | 0.47 |
| Net income/employee (currency unit) | 53,292 | 51,629 | 36,004 | 22,886 | 14,578 | 13,711 |
| Non-interest expenses/average adjusted assets | 2.70 | 2.80 | 2.93 | 3.30 | 3.30 | 3.28 |
| Personnel expense/employee (currency unit) | 67,396 | 65,187 | 67,964 | 64,638 | 60,022 | 59,365 |
| Core earnings/average risk-weighted assets | 1.26 | 1.47 | 1.29 | 1.20 | 1.03 | 0.94 |
| Core earnings/average adjusted assets | 1.00 | 1.18 | 0.97 | 0.82 | 0.69 | 0.62 |
| Core earnings/ Average ACE (ROE) | 11.12 | 12.97 | 10.19 | 8.05 | 6.38 | 5.82 |
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| FUNDING AND LIQUIDITY (%) | | | | | | |
| Customer deposits/funding base | 56.69 | 56.66 | 66.79 | 81.55 | 87.22 | 80.19 |
| Total loans/customer deposits | 162.39 | 159.18 | 132.48 | 99.80 | 86.39 | 87.74 |
| Total loans/customer deposits + long-term funds | 131.77 | 130.71 | 112.03 | 86.53 | 74.49 | 74.78 |
| Customer loans (net)/assets (adj.) | 78.60 | 76.84 | 74.22 | 64.85 | 59.32 | 55.20 |
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| CAPITALIZATION (%) | | | | | | |
| Adjusted common equity/risk assets | 11.85 | 10.82 | 11.99 | 13.39 | 17.05 | 15.30 |
| Internal capital generation/prior year's equity | 10.85 | 10.99 | 7.73 | 4.41 | 2.16 | 2.10 |
| Tier 1 capital ratio | 11.45 | 10.47 | 11.86 | 13.61 | 17.22 | 15.28 |
| Regulatory total capital ratio | 14.06 | 12.25 | 12.70 | 13.82 | 17.50 | 15.97 |
| Adjusted total equity/adjusted assets | 9.13 | 8.80 | 9.37 | 9.74 | 10.82 | 10.74 |
| Adjusted total equity/adjusted assets + securitizations | 9.13 | 8.80 | 9.37 | 9.74 | 10.82 | 10.74 |
| Adjusted total equity/risk assets | 11.85 | 10.82 | 11.99 | 13.39 | 17.05 | 15.30 |
| Adjusted total equity plus LLR (specific)/customer loans (gross) | 12.82 | 12.36 | 14.03 | 17.84 | 21.19 | 22.24 |
| Common dividend payout ratio | 19.97 | 19.97 | 21.55 | 34.28 | 51.52 | 51.10 |
| | 2008* | 2007 | 2006 | 2005 | 2004 | 2003 |
| ASSET QUALITY (%) | | | | | | |
| New loan loss provisions/avg. customer loans (net) | 0.74 | 0.45 | 0.71 | 0.26 | 0.96 | 0.98 |
| Loan loss reserves/customer loans (gross) | 1.36 | 1.02 | 1.62 | 3.31 | 3.61 | 3.45 |
| Credit-loss reserves/risk assets | 1.40 | 0.97 | 1.56 | 3.05 | 3.67 | 3.20 |
| Nonperforming assets (NPA)/customer loans + ORE | 2.50 | 1.75 | 2.07 | 4.04 | 4.86 | 4.00 |
| NPA (excl. delinquencies)/customer loans + ORE | 2.50 | 1.75 | 2.07 | 4.04 | 4.86 | 4.00 |
| Net NPA/customer loans (net) + ORE | 1.16 | 0.74 | 0.46 | 0.75 | 1.30 | 0.57 |
| NPA (net specifics)/customer loans (net specifics) | 1.16 | 0.74 | 0.46 | 0.75 | 1.30 | 0.57 |
| Loan loss reserves/NPA (gross) | 54.30 | 58.17 | 78.05 | 82.11 | 74.27 | 86.20 |

*Data as of June 30, 2008, unaudited, consolidated, and prepared according to IFRS; ratios annualized where appropriate. Year-end financial statements are audited, consolidated, and prepared according to Italian GAAP until year-end 2004, and prepared according to IFRS from 2005 on. N.A.--Not available.

Ratings Detail (As Of December 4, 2008)*

Cassa di Risparmio della Provincia di Teramo SpA

Counterparty Credit Rating

BBB+/Stable/A-2

Certificate Of Deposit

BBB+/A-2

| Ratings Detail (As Of December 4, 2008)* (cont.) | |
|--|-----------------|
| Senior Unsecured (3 Issues) | BBB+ |
| Counterparty Credit Ratings History | |
| 14-Nov-2005 | BBB+/Stable/A-2 |
| Sovereign Rating | |
| Italy (Republic of) | A+/Stable/A-1+ |
| *Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. | |

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