

Credit Opinion: Banca Carige S.p.A.

Global Credit Research - 15 May 2012

Genova, Italy

Ratings

Category	Moody's Rating
Outlook	Negative
Bank Deposits -Fgn Curr	Baa2/P-2
Bank Deposits -Dom Curr	Baa2/--
Bank Financial Strength -Dom Curr	D+
Issuer Rating	Baa2

Contacts

Analyst	Phone
Carlo Gori/Milan	39.02.9148.1100
Christina Sterr/Milan	
Johannes Wassenberg/London	44.20.7772.5454

Key Indicators

Banca Carige S.p.A. (Consolidated Financials)[1]

	[2]6-11	[2]12-10	[2]12-09	[2]12-08	[2]12-07	Avg.
Total Assets (EUR million)	42,374.1	40,010.0	36,299.4	31,851.0	27,463.7	[3]11.5
Total Assets (USD million)	61,435.8	53,675.1	52,080.2	44,274.5	40,153.3	[3]11.2
Tangible Common Equity (EUR million)	1,350.1	1,403.8	1,498.9	1,345.9	1,456.3	[3]-1.9
Tangible Common Equity (USD million)	1,957.5	1,883.2	2,150.5	1,870.9	2,129.2	[3]-2.1
Net Interest Margin (%)	2.0	2.0	2.4	3.0	2.7	[4]2.4
PPI / Avg RWA (%)	1.6	1.8	2.2	1.5	2.5	[5]1.9
Net Income / Avg RWA (%)	0.7	0.9	1.1	0.7	1.2	[5]0.9
(Market Funds - Liquid Assets) / Total Assets (%)	13.2	12.5	9.9	20.0	16.9	[4]14.5
Core Deposits / Average Gross Loans (%)	59.9	63.7	67.6	61.8	57.1	[4]62.0
Tier 1 Ratio (%)	6.7	6.7	7.9	7.9	7.8	[5]7.4
Tangible Common Equity / RWA (%)	6.0	6.4	7.6	7.0	8.1	[5]7.0
Cost / Income Ratio (%)	67.6	65.4	61.5	70.6	74.1	[4]67.9
Problem Loans / Gross Loans (%)	6.4	6.7	6.8	4.6	5.3	[4]6.0
Problem Loans / (Equity + Loan Loss Reserves) (%)	39.3	39.1	36.1	25.2	28.4	[4]33.6

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On 14 May 2012, we downgraded the following ratings of Banca Carige (Carige): standalone bank financial strength

rating (BFSR) to D+ from C- (the standalone BFSR now maps to a standalone credit assessment of baa3, formerly baa2). At the same time, Carige's long-term deposit ratings were downgraded to Baa2 from Baa1. The aforementioned ratings now carry a negative outlook.

The key drivers for the one-notch downgrade of the standalone BFSR are pressure on capital from the challenging operating environment and the impact of restricted and costly access to market funding. Carige reported a very low 6.7% Core Tier 1, exposing the bank's vulnerability to our stress scenario; however, we understand from management that a strengthening of this ratio is likely during 2012 through valorisation of goodwill. Carige's funding profile shows lower-than peers reliance on wholesale market funds (the adjusted liquidity ratio stands at 1.1%), with a moderate reliance on foreign investors. Even though Carige's reliance on ECB funding has increased due to restricted market access, we believe this is more manageable than for many of its peers whose dependence has become much more significant.

In our opinion, the rating is underpinned by the bank's 25-30% market shares in Carige's home region, contributing to adequate profitability, which is more resilient than peers.

In combination, these factors have limited the extent of the downgrade to one notch and a standalone rating at D+/baa3, higher than many of its peers.

SUMMARY RATING RATIONALE

We assign standalone financial strength of D+, mapping to a standalone credit assessment of baa3 to Banca Carige (Carige). The rating reflects Carige's currently weak capital adequacy and the impact of restricted and costly access to market funding, mitigated by the bank's strong market shares in Italy's north-western region of Liguria, and its satisfactory profitability.

Banca Carige's long-term global local currency (GLC) deposit rating of Baa2 reflects our assessment of a moderate probability of systemic support in the event of a financial crisis. Under our joint default analysis (JDA) methodology, this results in one-notch uplift from the baa3 standalone credit assessment.

Rating Drivers

- Restoring capital adequacy to higher level
- Strengthening asset quality
- Restricted and costly access to market funding, mitigated by better than peers retail funding
- Strong market shares in Liguria
- Relatively low cost of credit contributes to adequate profitability

Rating Outlook

The outlook on all ratings is negative, reflecting the challenging operating environment and uncertainty regarding future market access which may continue to place pressure also on Carige.

What Could Change the Rating - Up

An upgrade is unlikely in the near term; however, the ratings could be upgraded aided by strengthened capitalisation (i.e., Core Tier 1 notably above 9%) and asset quality, thus reducing the sensitivity to our stress scenarios.

What Could Change the Rating - Down

The ratings could be downgraded if (i) the bank fails to strengthen its capital adequacy and asset quality, or (ii) profitability deteriorates significantly further.

Recent Results

In March 2012, net income (under audited IFRS) grew to EUR45 million, up 22% compared to the first quarter of 2011. The Core Tier 1 was 6.8%.

DETAILED RATING CONSIDERATIONS

Pressure on profitability

Profitability improved by 5.3% in 2011, with net profitability at 0.8% of risk-weighted assets (which is above the Italian peer average). Profitability is supported by one of the lowest 'cost of credit' among large Italian banks (43 bps on gross loans in 2011), and by the bank's strong regional franchise.

In 2011, the cost-to-income ratio was 62%, an improvement of 3 percentage points compared to 2010. These results also reflected progress made in integrating the various acquisitions of smaller banks and branch networks outside Liguria in recent years.

The potential for aligning the branches acquired outside Liguria to group's best practices is offset by high funding costs and the recession, therefore we do not expect improvements of the bank's profitability beyond what recorded in the first quarter of 2012.

Asset-side vulnerability

In March 2012, the bank reported a Core Tier 1 ratio of 6.8% (after the conversion of a convertible bond). This ratio is at the bottom of the peer group and does not provide a sufficient cushion to withstand unexpected credit losses. Under Moody's stress test scenario, Carige's credit loss is below Italian average due to the higher volume of mortgages with low loan to value (LTV) and lower real estate exposure. The bank's main loss driver is the SME portfolio.

We take comfort, however, from the likelihood of a significant planned capital strengthening this year, as stated by management.

In 2011, Carige's asset quality remained modest, albeit better than the Italian average, with problem loans* accounting for 7.2% of lending, and 56% of equity and loan loss reserves.

The bank is confident that either a sale of NPLs (unlikely in the current operating environment) or the continuing management of the NPL portfolio would generate some modest capital gains, given the adequate coverage with loan loss reserves and collateral (often real estate). Management also expects some capital gains from the previous real estate bad loans securitisation. We believe management's expectations are achievable, given the bank's cost of credit, which is far lower compared to peers.

In light of the recession, however, we anticipate a deterioration of asset quality for the 2012 and 2013. In addition, we remain concerned about the relatively strong growth in the lending portfolio (partly due to acquisitions), coupled with high borrower concentration.

* Problem loans include: non-performing loans (sofferenze), watchlist (incagli - including only an estimate of those over 90 days overdue), restructured (ristrutturati) and past due loans (scaduti).

Challenges caused by more expensive access to funding

Although funding needs are mainly structurally covered by retail clients (68% of funding), which is a key strength in the current challenging environment, the bank has tapped the institutional market in the past to maintain access to this source of funding. Carige also used the covered bond market to further diversify and lengthen its funding sources.

Overall, we see Carige's satisfactory retail funding profile (including retail bonds) as an important competitive advantage in the current operating environment. We view favourably Carige's placing power with retail clients which is supported by the bank's strong regional market share.

Carige's key liquidity ratio is superior to Italian and European peers (1% in 2011). The bank is less reliant on the ECB in comparison with the Italian peer average. One-year maturities, largely retail, are covered by the long-term refinancing operation and available eligible assets. However, there is a risk that restricted and costly market access will continue for an extended period. As a result, uncertainty regarding when the bank will again be able to fund itself regularly -- and on an economic basis -- is a key credit risk and an important rating driver.

Strong regional market shares support the rating

Carige is a multi-regional commercial bank that services the household and SME sectors. The bank's strategy has been to consolidate in Liguria, where it has a sound market position, with market shares of around 30% for deposits and 25% for loans, and to gradually expand into other regions by branch openings and acquisitions, which has resulted in adequate geographical diversification. Management is aware of the need to diversify from Liguria, where the economy is expected to remain stagnant in the absence of public investment in infrastructure works. The acquisition of branches located outside Liguria seeks to address the aforementioned concerns: about 55% of deposits, 50% of loans and less than 39% of branches are in its home region.

Challenging operating environment

The operating environment in Italy has become increasingly difficult for banks in recent months. This includes (i) the effects of the country re-entering recession following the severe recession in 2009; (ii) the expected impact of the government's austerity measures (taken to protect its own balance sheet); and (iii) the restricted and costly market-funding access.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign deposit and debt ratings of Baa2 to Carige. The ratings incorporate the standalone credit assessment of baa3 and our assessment of a moderate probability of systemic support in the event of need. This results in a one-notch uplift from the standalone credit assessment.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Ratings

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating (Joint Default Analysis)

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in case a stress situation occurs and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss

expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Banca Carige S.p.A.

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						D+	
Factor: Franchise Value						D	Neutral
Market Share and Sustainability				x			
Geographical Diversification				x			
Earnings Stability				x			
Earnings Diversification [2]							
Factor: Risk Positioning						D	Neutral
Corporate Governance [2]	--	--	--	--	--		
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management				x			
- Risk Management			x				
- Controls				x			
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness			x				
- Quality of Financial Information			x				
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		

Liquidity Management			x				
Market Risk Appetite		x					
Factor: Operating Environment						D	Neutral
Economic Stability				x			
Integrity and Corruption				x			
Legal System				x			
Financial Factors (50%)						D+	
Factor: Profitability						D+	Neutral
PPI / Average RWA - Basel II			2.02%				
Net Income / Average RWA - Basel II				0.92%			
Factor: Liquidity						C-	Neutral
(Mkt funds-Liquid Assets) / Total Assets				13.19%			
Liquidity Management			x				
Factor: Capital Adequacy						C+	Neutral
Tier 1 Ratio - Basel II			7.33%				
Tangible Common Equity / RWA - Basel II		6.76%					
Factor: Efficiency						C	Neutral
Cost / Income Ratio			62.96%				
Factor: Asset Quality						D	Neutral
Problem Loans / Gross Loans				6.87%			
Problem Loans / (Equity + LLR)				43.86%			
Lowest Combined Score (15%)						D	
<i>Economic Insolvency Override</i>						Neutral	
Aggregate Score						D+	
Assigned BFSR						D+	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral



© 2012 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY

PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly

disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.