MOODY'S INVESTORS SERVICE

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

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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	
Economic Insolvency Override						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