

RESEARCH

Research Update:

Banca di Credito Cooperativo San Marzano di San Giuseppe Rated 'BBB-/A-3'; Outlook Stable

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Rationale

On May 31, 2007, Standard & Poor's Ratings Services assigned its 'BBB-' long-term and 'A-3' short-term counterparty credit ratings to Italy's Banca di Credito Cooperativo San Marzano di San Giuseppe S.c.r.l. (BCC San Marzano). The outlook is stable.

The ratings on BCC San Marzano are supported by the bank's adequate financial profile, including positive management focus, built on good supervisory abilities in the main-risk areas, a stable funding retail base, and adequate profitability.

The ratings also include potential external support from the bank's adherence to the depositors' guarantee fund ("Fondo di Garanzia dei Depositanti del Credito Cooperativo") specific to the Italian cooperative banking network, the Banche di Credito Cooperativo (BCC).

These strengths are offset by potential credit and operational risks stemming from the bank's fast lending growth over the past few years. Efficiency, although improved, also remains lower than that of BCC peers. The concentration of the bank's business in a limited geographic area and by single borrower further constrains the ratings, as does the small size of capital in absolute terms, which provides a limited cushion against unexpected losses.

With €230 million in total assets and €17 million of adjusted total equity (ATE) at year-end 2006, BCC San Marzano is a very small cooperative bank that serves the needs of local households and entrepreneurs through a network of eight branches, concentrated in the province of Taranto (Region of Puglia; not rated).

BCC San Marzano's credit risk profile is adequate and benefits from the bank's selective lending procedures and close client relationships that have enabled it to maintain asset quality indicators above the average of other BCC and banking players covering the same area. In addition, loan composition has a higher-than-peers' share of less-risky residential mortgages. Furthermore, the bank's robust loan growth over the past five years means that a significant part of its customer loan portfolio is still unseasoned. Additional potential risk stems from the loan book's geographic and single-name concentration, especially in light of BCC San Marzano's very small size.

Profitability is adequate--with the ratio of net operating income after loan loss provisions to average adjusted assets approaching 1.32% in 2006--although constrained by a high cost base, due to the bank's very small size, thus preventing any benefit from economies of scale. The cost-to-income ratio, at a higher-than-peers' 69% in 2006, has improved during the past four years, and, supported by good capital-generating capacity, should gradually benefit in the coming years from management's focus on profitability and cost containment. Liquidity is good, backed by a stable customer-shareholder base. BCC San Marzano is capable of attracting new shareholders, as well as good internal capital generation.

Outlook

The stable outlook reflects our expectation that the bank will maintain an adequate overall financial profile in the coming years. In particular,

Standard & Poor's will monitor the bank's asset quality profile and ability to prevent any significant deterioration in asset quality indicators, especially given its very small size and the fast lending growth of recent years. We consider that the preservation of adequate capitalization ratios in line with the current level is a key support to the current ratings, given the bank's geographic concentration and small absolute capital base.

Downward pressure on the ratings could result from an unexpected surge in credit costs or deterioration in capital ratios. The upside for the ratings is limited, however, given BCC San Marzano's low business diversification.

Ratings List

Counterparty credit rating BBB-/Stable/A-3

NB: This list does not include all ratings affected.

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