

Fitch Rates Cassa di Risparmio della Repubblica di San Marino 'A-'; Stable Outlook

Fitch Ratings-London/Milan-27 November 2006: Fitch Ratings has today assigned Cassa di Risparmio della Repubblica di San Marino ("CRSM") ratings of Issuer Default 'A-' (A minus), Short-term 'F2', Individual 'B/C' and Support '3'. The Outlook for the Issuer Default rating ("IDR") is Stable.

CRSM's IDR, Short-term and Individual ratings reflect its leading domestic franchise, good operating performance and moderate credit risk exposure. The ratings also take into consideration the limited size of the bank's home market, its expansion strategy and risk management systems which, although being strengthened, are not yet in line with best practice. The Support rating reflects what Fitch considers to be a moderate probability of support from the San Marino authorities in case of need.

CRSM's operating performance is good and has been steadily improving. Operating revenues are dominated by net interest income. Cost efficiency is good as personnel and other administrative expenses are well controlled. CRSM's net income is influenced by substantial transfers to funds for risks and a loan loss provisioning policy adopted for tax reasons.

Asset quality is sound as demonstrated by the low level of gross impaired loans and the conservative provisioning levels. There is some credit concentration, both in CRSM's loan book and its securities portfolio. Fitch also notes some credit risk in the bank's securities portfolio.

Risk management systems are basic but acceptable considering the bank's activities. Fitch notes the importance of risk control being strengthened in line with the bank's planned expansion.

Fitch considers CRSM's capitalisation (the bank estimated Tier 1 and total capital ratios at 26.4% and 32% respectively at end-2005), which is well above the levels of banks in other countries, adequate given its operations and its expansion plans.

With total equity of EUR480 million at end-June 2006, CRSM is the oldest and largest bank in the Republic of San Marino. It acts as a retail and commercial bank in San Marino for resident customers and as an offshore private bank for non-resident clients. The CRSM group includes a minority interest in an Italian consumer lending conglomerate. CRSM is looking to expand abroad through small acquisitions. CRSM is 100% owned by the "Fondazione San Marino – Cassa di Risparmio della Repubblica di San Marino", a non-profit entity channelling part of its annual surplus back into the community.

This is the first time Fitch has assigned ratings to a bank based in the Republic of San Marino (rated 'AA', see available sovereign report on www.fitchratings.com), a tiny enclave within north-eastern Italy with a population of less than 30,000. Financial services constitute a key economic sector for the domestic economy. Fitch notes the recent improvements in the level of banking regulation, but the agency considers that there are still challenges for banks and local authorities in modernising systems and strengthening controls to bring them more in line with international best practice. A significant increase in the number of banks in the period from 2000 to 2005 may have led these small sized indigenous players to take risks in order to gain market share. In view of the bank secrecy legislation in San Marino, some of the banks operating in the country may face additional reputational risks given that a large part of their business consists of private banking.

Contacts: Francesca Vasciminno, Milan, Tel. +39 02 879 087 225; Christian Scarafia +39 02 879 087 212

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.