



# Banca Popolare di Sondrio

## PRESS RELEASE

### SCOPE RATINGS CONFIRMS THE RATING OF BANCA POPOLARE DI SONDRIO AT INVESTMENT GRADE 'BBB', WITH STABLE OUTLOOK

Banca Popolare di Sondrio informs that today, the agency Scope Ratings, at the end of the annual rating review process, has confirmed the issuer rating at *investment grade* "BBB", with *outlook* - also unchanged - stable.

In its analysis, the agency emphasises the strong operational performance recently recorded by the bank, while appreciating its ability to have remained profitable in all phases of the economic cycle, with profitability in the last decade higher than that achieved, on average, by Italian banks.

Positive evaluation was also given for the solid asset quality and the large capital *buffer* against regulatory requirements.

Please find attached the press release issued by Scope Ratings.

BANCA POPOLARE DI SONDRIO SPA

Sondrio, 17 April 2024

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*The English translation is provided only for the benefit of the reader and in the case of discrepancies the Italian version shall prevail.*

Credit Rating Announcement

17 April 2024

## Scope affirms Banca Popolare di Sondrio's issuer rating of BBB with Stable Outlook

**Rating affirmation reflects the recent strong operating performance as well as solid asset quality and solvency metrics.**

### Rating action

Scope Ratings GmbH (Scope) has today affirmed Banca Popolare di Sondrio SpA's issuer rating of BBB with Stable Outlook.

### Rating rationale

The BBB issuer rating on Banca Popolare di Sondrio SpA (BPS) reflects the following assessments:

- **Operating environment assessment: Supportive (Low).** Italy has a large and diversified economy but is constrained by high debt levels and limited fiscal flexibility. Being part of the European banking union, the regulatory and supervisory environment is considered highly supportive for the financial stability of banks. The assessment also considers the high fragmentation and low efficiency of the Italian banking system.
- **Business model assessment: Consistent (Low).** BPS has an established retail and commercial banking franchise, with solid market shares in the wealthy Italian region of Lombardy. Although its national market share is low, BPS enjoys a dominant position in its home province of Sondrio and has a significant market presence in the provinces of Lecco and Como. This supports moderately stable and predictable revenues and earnings over the cycle.

The group includes BPS Suisse, a small bank in Switzerland specialised in retail mortgages, and Factorit, Italy's fourth largest factoring company. Together, the two subsidiaries represent almost 30% of the group's loan book. The group also owns BNT Banca, which provides low-risk, payroll-deductible loans to individuals.

Scope does not expect major changes to the group's business model in the near future. BPS' strategy continues to be based on measured organic growth and proximity to local communities. More recently, the group has increased fee-based activities, such as the distribution of third-party products. Management is also committed to digitalisation, making investments in technology and people with relevant expertise.

- **Initial mapping of bbb-:** The initial mapping results from the combination of our operating environment and business model assessments.

- **Long term sustainability assessment (ESG factor): Developing.** Scope's assessment reflects improvements in the group's corporate governance. This includes the transformation into a joint stock company and the reorganisation of the management structure. The assessment also considers BPS' cooperative roots and its attention to the territories where it operates, indicating strong social responsibility and responsiveness to the interests of various stakeholders. Scope, however, believes there is material room for improvement in the bank's preparedness for digital competition.
- **Earnings capacity and risk exposures assessment: Neutral.** BPS has demonstrated the ability to generate earnings throughout the cycle. While low by international standards, profitability has been better than the average for Italian banks over the past decade due to stable revenue, good cost efficiency, moderate loan losses and the lack of large restructuring costs. The group's asset quality has also materially improved since 2017, with headline metrics now close to domestic and European peers.

In a higher interest rate environment, the group's earnings have significantly increased due to wider commercial spreads. Moreover, unlike most domestic peers, BPS has seen steady growth in fee and commission income. Credit losses have remained under control with the default rate around 1%, while the impact from NPL disposals has been limited. In 2023, BPS reported a return on average equity of 13.8%, well above its 2025 target.

Scope expects the group's return on average equity to remain in the low double digits in 2024 and 2025 despite a decline in net interest income as the ECB begins to reduce its key rates from the second half of this year. While the default rate is expected to increase from record lows, the group has a cushion of EUR 200m in overlays (approximately 50 bps of customer loans) that could be used to absorb higher credit losses. Management has guided to a cost of risk of 50-60 bp, in line with Southern European peers.

The group's material exposure to Italian sovereign debt (EUR 6.8bn, about 194% of Tier 1 capital as of end-2023) is not considered a rating constraint. The majority is held at amortised cost, limiting the sensitivity of the group's capital position to sovereign spread volatility.

- **Financial viability management assessment: Comfortable.** BPS holds comfortable buffers against regulatory solvency requirements. Scope expects these to be maintained over the strategic plan horizon, as strong organic capital generation should be able to accommodate business growth and regulatory headwinds.

BPS is primarily funded by customer deposits, which have grown as the balance sheet has expanded over the years. In 2023, the group maintained relatively stable deposit volumes even as some customers shifted to more remunerative options. While competition for deposits may increase in 2024, this should be manageable for the group. BPS maintains a high level of liquidity despite the ongoing repayment of the ECB's TLTRO III. The remaining tranche of EUR 3.7bn is due in September 2024.

One or more key drivers of the credit rating action are considered an ESG factor.

## Outlook and rating-change drivers

The Stable Outlook reflects Scope's view that BPS' credit profile will remain unchanged over the next 12-18 months.

What could move the rating up:

- Scope currently sees limited upside to BPS' issuer rating given the group's lower business diversification compared to peers. The rating already incorporates the group's greatly improved asset quality profile as well as the comfortable capital and funding positions.

What could move the rating down:

- A significant reduction in the buffer to capital requirements, currently a key support for the rating.
- A material increase in non-performing loans linked to weaker operating conditions.

## Overview of rating construct

Operating environment: Supportive low

Business model: Consistent high

Initial mapping: bbb-

Long-term sustainability (ESG-D): Developing

Adjusted anchor: bbb-

Earnings capacity and risk exposures: Neutral

Financial viability management: Comfortable

Additional rating factors: Neutral factor

Stand-alone assessment: bbb

External support: Not applicable

Issuer rating: BBB

### Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

### Methodology

The methodology used for this Credit Rating and/or Outlook, (Financial Institutions Rating Methodology, 6 February 2024), is available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/eu-regulation>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerp.esma.europa.eu/cerp-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Rating if the Credit Rating were to change within the next 12 to 18 months.

### Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Rating: public domain, the Rated Entity and

Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting the Credit Rating originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Rating and/or Outlook and the principal grounds on which the Credit Rating and/or Outlook are based. Following that review, the Credit Rating and/or Outlook was not amended before being issued.

## Regulatory disclosures

This Credit Rating and/or Outlook is issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Rating and/or Outlook is UK-endorsed.

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Person responsible for approval of the Credit Rating: Pauline Lambert, Executive Director

The Credit Rating/Outlook was first released by Scope Ratings on 10 September 2018. The Credit Rating/Outlook was last updated on 14 March 2023.

## Potential conflicts

See [www.scooperatings.com](http://www.scooperatings.com) under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings.

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With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAAF). The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on [www.scopegroup.com](http://www.scopegroup.com)

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