



# Banca Popolare di Sondrio

## PRESS RELEASE

### DBRS MORNINGSTAR UPGRADES BANCA POPOLARE DI SONDRIO'S TREND FROM 'STABLE' TO 'POSITIVE' DUE TO STRONG FINANCIAL FUNDAMENTALS

#### LONG-TERM ISSUER RATING CONFIRMED AT INVESTMENT GRADE 'BBB (low)'

It is informed that today the DBRS Morningstar agency, at the end of its annual rating review process, confirmed all the ratings assigned to Banca Popolare di Sondrio ("BPS"), including the long-term issuer rating at *investment grade* "BBB(low)", and at the same time improved the *trend* from "stable" to "positive".

Below are the details of the ratings currently assigned to the bank:

- Long-Term Issuer Rating: "BBB (low) "
- Short-Term Issuer Rating : "R-2 (middle)".
- Long-Term Senior Debt: 'BBB (low)'.
- Short-Term Debt: "R-2 (middle)".
- Long-Term Deposits: 'BBB'.
- Short-Term Deposits: "R-2 (high)".
- Subordinated Debt: 'BB

The improvement in the *trend* reflects the rating agency's assessment of the positive evolution of BPS's financial fundamentals: the asset quality profile now expresses metrics that are more in line with European *peers* and *core* profitability has

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strengthened, not only due to the significant increase in net interest income, but also due to solid growth in commissions.

The ratings currently assigned are also solidly supported by the bank's ample capital *buffers* against regulatory requirements, its robust *funding* base from *retail* customers, and its positive *track record* in terms of operational efficiency.

Please find attached the press release issued by DBRS Morningstar.

Sondrio, 13 November 2023

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

## DBRS Morningstar Revises Trend on Banca Popolare di Sondrio to Positive, Confirms BBB (low) Long-Term Issuer Rating

### BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Banca Popolare di Sondrio S.p.A. (BPS or the Bank), including the Long-Term Issuer Rating of BBB (low) and the Short-Term Issuer rating of R-2 (middle). The Bank's Deposit ratings were confirmed at BBB/R-2 (high), one notch above the IA, reflecting the legal framework in place in Italy, which has full depositor preference in bank insolvency and resolution proceedings. The trend on all credit ratings was changed to Positive from Stable. DBRS Morningstar has also maintained the Intrinsic Assessment (IA) at BBB (low) and the Support Assessment at SA3. A full list of credit rating actions is included at the end of this press release.

### KEY CREDIT RATING CONSIDERATIONS

The change of the trend to Positive reflects our view that the Group has improved asset quality profile, evidenced by the lower stock of non-performing exposures (NPEs). We view that asset quality metrics are now more in line with European peers. In DBRS Morningstar's view, this will help BPS mitigate the expected negative implications for asset quality due to higher interest rates, high inflation, and weaker economic prospects. The change in Trend also reflects our view that core profitability has improved, as net interest income benefited from higher interest rates but also thanks to sound growth in fees and commissions. On top of this, we incorporate BPS's sound operating efficiency which remains at the higher end of its peer group. Nevertheless, we also take into account that the Bank's cost of risk, although contained so far, remains above the European average, and we can expect a deterioration in future quarters stemming from the current environment, with inflation and higher interest rates impacting borrowers. Additionally, DBRS Morningstar expects NII to normalise in 2023, although BPS revenues should continue to benefit from higher fee and commissions.

The credit ratings incorporate the Bank's very modest national market position but solid franchise in the Lombardy region, especially in the province of Sondrio. BPS also has a long and proven earnings track record and a robust retail funding base. In addition, the ratings are underpinned by BPS's ample capital buffers above supervisory requirements.

### CREDIT RATING DRIVERS

An upgrade of the credit ratings would require the bank to maintain sustained profitability metrics together with their current risk profile and capital levels.

The credit ratings would be downgraded should the bank's profitability materially reduce. A significant weakening of the capital base could also lead to a downgrade.

### CREDIT RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Moderate

Established in 1871, Banca Popolare di Sondrio is a small to medium-sized bank based in Sondrio (Lombardy), with EUR 54.8 billion in total assets as of end-September 2023. The Bank's main activities include retail and commercial banking. The Bank has 3,539 employees and 373 branches, distributed across 8 Italian regions, primarily in Northern Italy. Outside Italy, BPS has a small presence in retail and commercial banking in neighbouring Switzerland. BPS is the market leader for loans and deposits in the small province of Sondrio. However, the Bank's national market shares are more modest at around 2%. In addition, BPS has a leading market position in Italian public administration payment systems. BPS transformed from a cooperative bank into a joint-stock company at end-2021, as per the Italian law for the reform of the mutual banking sector.

#### Earnings Combined Building Block (BB) Assessment: Moderate

In DBRS Morningstar's view, profitability has improved thanks to a combination of lower cost of risk and improving core revenues. Continued de-risking resulted in lower pressure from loan loss provisions on the income statement. In addition, core revenues are mostly benefiting from higher interest rates, but also stronger commissions brought by business diversification implemented in previous years. The Bank's NII has improved significantly as expected, given its high sensitivity to interest rate increases. However, we see NII to be close to its peak considering our expectation of a slowdown in the tightening of the European Central Bank (ECB)'s monetary policy, as well as potential margin compression as banks attempt to retain market shares, lower new loan volumes, and the upcoming removal of the contribution from the mandatory reserve held at the central bank following the recent policy change. The cost of risk should remain contained overall, as current default rates remain below expectations, despite the current environment. BPS's net attributable income grew more than twofold at 348.6 million in 9M 2023 from EUR 151.2 million in 9M 2022. This was mainly driven by a boost in net interest income from the high interest rates and low deposit costs resulting in an increase in the commercial margin. Operating expenses were up 7.5% YOY, impacted by inflation, growth in the number of employees and anticipation of an increase in the labour costs. Nevertheless, the cost-income ratio as calculated by DBRS Morningstar improved to 43.9% from 57.6% in for the same period a year ago. The Bank's cost of risk stood at 41 bps in 9M 2023, in line with the level of the same period last year.

#### Risk Combined Building Block (BB) Assessment: Moderate

In recent years, the Bank has made progress in reducing its NPEs, mostly through disposals and securitisations, but also organic workouts. This de-risking resulted in BPS's asset quality moving more in line with other Italian banks and providing a much better starting point for any potential deterioration the Bank might face in the current challenging environment. BPS's asset quality has continued to improve in 2022 and 9M 2023, following substantial NPL disposals in 2022. As a result, the total stock of gross non-performing exposures (NPEs) decreased to EUR 1.4 billion at end-September 2023, stable from end-2022 but down from EUR 1.9 billion at end-2021 and the gross NPE ratio stood at 4.3%, stable from end-2022 but improved from 5.8% at end-2021. The net NPL ratio was 1.7% at end-September 2023, down from 1.8% at end-2022 and 2.7% at end-2021. We now view BPS's asset quality as more in line with the European average. The Group typically maintains a higher than peers coverage ratio, which stood at 62.5% at end-September 2023, improved from 58.3% at end-2022.

#### Funding and Liquidity Combined Building Block (BB) Assessment: Good/Moderate

DBRS Morningstar views BPS's funding profile as adequate, underpinned by its stable retail deposit franchise in its home market. At end-September 2023, customer deposits accounted for 70% of the Bank's total funding, whilst the proportion of central bank funding decreased to around 10% from 18% at end-2022 following the repayment of EUR 4.4 billion of TLTRO. We also view as positive that the Bank has diversified its funding sources in recent years, thanks to issuances on the wholesale markets. A key strength supporting the credit ratings is the Bank's solid liquidity position. At end-September 2023, BPS had around EUR 8.4 billion of unencumbered securities, amply covering outstanding net short-term funding. Also, the Bank reported at end-September 2023, LCR and NSFR ratios well above the regulatory requirements at 187% and 128% respectively.

## Capitalisation Combined Building Block (BB) Assessment: Good/Moderate

The Bank's capital ratios were further reinforced through issuances, which helped diversify the capital base and build-up the total loss absorption capacity. Furthermore, thanks to the de-risking process undertaken in previous years, we see BPS's capital as less pressured by the NPE stock, although we could expect some deterioration in coming quarters as a result of the current environment. The CET1 ratio (fully loaded) was 16.2% at end-September 2023 up from 15.3% at end-2022. The fully loaded total capital ratio stood at 18.7% at end-September 2023 compared to 17.9% at end-2022. We view positively that BPS maintains an ample buffer above its regulatory minimum capital requirements, including 780 bps above the CET1 and 564 bps over the Total Capital requirements. BPS also announced in regard of the windfall tax that they would allocate around EUR 107 million to non-distributable reserve.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/423246>.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

There were no Environmental, Social or Governance factors that had a significant or relevant effect on the credit analysis.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (4 July 2023) - <https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

### Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations <https://www.dbrsmorningstar.com/research/415978/global-methodology-for-rating-banks-and-banking-organisations> (22 June 2023). In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings <https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://www.dbrsmorningstar.com/about/methodologies>

The sources of information used for this credit rating include Morningstar Inc. and Company Documents, BPS 9M 2023, H1 2023 and 2022 Press Releases, BPS H1 2023 Interim Report, BPS 2022 Annual Report, BPS H1 2023 and 2022 Pillar III Reports and BPS 2022 Sustainability Report. DBRS Morningstar considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and credit ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on DBRS Morningstar historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/423245>.

This credit rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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## Ratings

### Banca Popolare di Sondrio S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
13-Nov-23	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	<b>EU</b> <b>U</b>
13-Nov-23	Long-Term Issuer Rating	Trend Change	BBB (low)	Pos	<b>EU</b> <b>U</b>
13-Nov-23	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	<b>EU</b> <b>U</b>
13-Nov-23	Short-Term Issuer Rating	Trend Change	R-2 (middle)	Pos	<b>EU</b> <b>U</b>
13-Nov-23	Long-Term Deposits	Confirmed	BBB	Stb	<b>EU</b> <b>U</b>
13-Nov-23	Long-Term Deposits	Trend Change	BBB	Pos	<b>EU</b> <b>U</b>
13-Nov-23	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	<b>EU</b> <b>U</b>

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
13-Nov-23	Long-Term Senior Debt	Trend Change	BBB (low)	Pos	<b>EU</b> <b>U</b>
13-Nov-23	Short-Term Debt	Confirmed	R-2 (middle)	Stb	<b>EU</b> <b>U</b>
13-Nov-23	Short-Term Debt	Trend Change	R-2 (middle)	Pos	<b>EU</b> <b>U</b>
13-Nov-23	Short-Term Deposits	Confirmed	R-2 (high)	Stb	<b>EU</b> <b>U</b>
13-Nov-23	Short-Term Deposits	Trend Change	R-2 (high)	Pos	<b>EU</b> <b>U</b>
13-Nov-23	Subordinated Debt	Confirmed	BB	Stb	<b>EU</b> <b>U</b>
13-Nov-23	Subordinated Debt	Trend Change	BB	Pos	<b>EU</b> <b>U</b>

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