



Banca Popolare di Sondrio

Co-operative Society by shares - founded in 1871
Head office and general management: I - 23100 Sondrio So - Piazza Garibaldi 16
Registered in the Register of Companies of Sondrio at no. 00053810149
Registered in the Register of Banks under no. 842.
Parent Bank of the Banca Popolare di Sondrio Banking Group, registered in the Register of Banking Groups under no. 5696.0
Registered in the Register of Cooperative Societies under no. A160536
Member of the Interbank Deposit Protection Fund
Tax code and VAT number: 00053810149
Share Capital € 1,360,157,331 - Reserves € 1,157,414,409
(data approved by the Shareholders' Meeting of 12/6/2020)

PRESS RELEASE

DBRS Morningstar confirms Banca Popolare di Sondrio's Long-Term Issuer Rating at the investment grade level BBB (low), with trend Negative.

Today the credit rating agency DBRS Morningstar, at the end of the annual review process, has confirmed Banca Popolare di Sondrio's Long-term Issuer Rating at the investment grade level of BBB (low), with trend Negative. All the other ratings assigned to the bank have also been confirmed.

Please find attached the document published by DBRS Morningstar.

Sondrio, 16 November 2020

BANCA POPOLARE DI SONDRIO SCPA

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

DBRS Morningstar Confirms Banca Popolare di Sondrio at BBB (low), Trend Remains Negative

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Banca Popolare di Sondrio S.C.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). This follows a full annual review of the Group's ratings. 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 the Bank's long-term and short-term ratings remains Negative. DBRS Morningstar has also maintained the Intrinsic Assessment (IA) of the Bank is BBB (low) and the Support Assessment is SA3. See a full list of ratings at the end of this press release.

KEY RATING CONSIDERATIONS

In maintaining the Negative trend, we incorporate the heightened risks and uncertainty to the Italian economy caused by the global pandemic (COVID-19) and its future implications for Italy's operating environment and our expectation that it will likely affect the Bank's revenues, cost of risk, and asset quality. In particular, we expect asset quality to deteriorate in 2021, following the end of moratoria. Downward rating pressure would intensify should the economic crisis be prolonged.

The confirmation of the ratings takes into account the Group's improved asset quality profile, evidenced by the lower stock of non-performing exposures (NPEs), thanks to the securitisation of EUR 1 billion of NPLs in Q2 2020. The ratings also incorporate the Bank's small national position but solid franchise in the region of Lombardy, especially in the province of Sondrio, with a long and proven track record and its robust retail funding base. In addition, ratings are underpinned by BPS's ample capital buffers over the supervisory requirements. However, the ratings also take into account the Bank's modest, albeit resilient, profitability, the still high stock of NPEs compared to the European average and the challenges associated with the Bank's pending legal transformation into a joint-stock company by end-2021.

RATING DRIVERS

Any upgrade is unlikely in the short-term given the Negative trend. However, the trend on the Long-Term ratings could revert to Stable if the Bank were able to demonstrate limited earnings and asset quality impact from the global COVID-19 pandemic.

A downgrade would be driven by a significant deterioration of the Bank's profitability and asset quality. A material deterioration of capital buffers could also lead to a downgrade.

RATING RATIONALE

BPS is a medium-sized mutual bank (Banca Popolare) focused on retail and commercial banking. Based in Sondrio (Lombardy), the Bank had EUR 47.5 billion in total assets as of end-September 2020 and 366 branches, primarily in the North of Italy. Outside Italy, BPS has a small presence in retail and commercial banking in neighboring 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 Italy in the sector of payment systems with public administration and in the delivery of services for the internationalisation of enterprises. BPS' legal structure is expected to be transformed into a joint-stock company by end-2021 as per the Italian law for the reform of the mutual banking sector, which was confirmed by the Italian State Council and the European Court of Justice.

DBRS Morningstar sees the Bank's profitability as modest, due to ongoing revenue pressure and a high cost of risk, despite its good operating efficiency compared to its domestic peers. In 9M 2020, net attributable income was EUR 64.5 million, a decline of 47.7% year-on-year (YoY), mostly driven by lower results from financial operations on the back of challenging market conditions. NII was up by 6.4% YoY in 9M 2020, supported by growth of new lending as well as a reduction in funding costs which compensated for the negative impact of the ultra-low interest rate environment, whilst fees and commissions remained fairly stable YoY. Whilst operating expenses remained under control YoY thanks to the Bank's focus on cost control, the cost-income ratio deteriorated to 65.2% in 9M 2020 from 57.1% for the same period a year ago. Loan loss provisions (LLP) were up 3.4% in 9M 2020 YoY to EUR 133.9 million, absorbing 64.1% of Income before Provisions and Taxes (IBPT). The Bank's cost of risk stood at 59 bps in 9M 2020 as compared to 63 bps in 9M 2019, below most domestic peers. However, DBRS Morningstar views that the Bank will increase provisioning in relation with the COVID-19 crisis.

BPS holds a large albeit declining stock of NPEs. As a result, the total stock of NPEs decreased to EUR 2.8 billion at end-September 2020 from EUR 3.7 billion at end-2019 and the Gross NPE ratio decreased to 9.0% from 12.6% at end-2019. In addition, the Bank plans the completion of a new NPE transaction for EUR 400 million by the end of 2020. Nonetheless, we expect asset quality to deteriorate in 2021 due to the economic impact of the COVID-19 pandemic, although this could be partially mitigated by the Italian government and the European authorities' support measures.

The Bank has a solid funding and liquidity position, underpinned by its large and stable deposit retail franchise. At end-September 2019, total customer deposits accounted for 70% of the bank total funding compared to 80% at end-2019. This is due to the increase in central bank deposits, especially TLTRO III amid the COVID-19 crisis, which now account for about 20% of total funding. At end-June 2020, the Bank's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) were well above regulatory requirements.

DBRS Morningstar views the Bank's capital remains pressured by the still large stock of unreserved NPEs but considers the Bank has sound cushions over minimum regulatory requirements. In September 2020, the CET1 ratio (fully loaded) was to 16.3% up from 15.7% at end-2019 and 11.9% at end-2018, as the Bank was authorised to use AIRB models for regulatory purposes since May 2019. Also, the Phased-in CET1 ratio was 16.3% and the phased-in total capital ratio stood at 18.7% at end-September 2020, which provide around 630 bps and 520 bps of cushions over the minimum requirements of 10.0% and 13.5%.

ESG CONSIDERATIONS

DBRS Morningstar views the Corporate/Transaction Governance ESG subfactor as material to the credit rating. It is included in the Governance category. BPS' legal structure is expected to change, as the Bank is required to transform by end-2021 into a joint-stock company as per the law on the Italian mutual banking sector from 2015.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

The Grid Summary Grades for BPS are as follows: Franchise Strength – Good/Moderate; Earnings – Moderate/Weak; Risk Profile – Weak; Funding/Liquidity – Good/Moderate; Capitalisation – Moderate.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (8 June 2020) <https://www.dbrsmorningstar.com/research/362170/global-methodology-for-rating-banks-and-banking-organisations>.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

The sources of information used for this rating include Company Documents, BPS H1 2020 Interim Report, BPS 9M 2020 Press Release and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

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

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and 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: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/370043>.

Ratings assigned by DBRS Ratings GmbH are subject to EU and U.S. regulations only.

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Initial Rating Date: November 18, 2019

Last Rating Date: April 2, 2020

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

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

Date Issued	Debt Rated	Action	Rating	Trend	Issued
16-Nov-20	Long-Term Issuer Rating	Confirmed	BBB (low)	Neg	
16-Nov-20	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Neg	
16-Nov-20	Long-Term Deposits	Confirmed	BBB	Neg	
16-Nov-20	Long-Term Senior Debt	Confirmed	BBB (low)	Neg	
16-Nov-20	Short-Term Debt	Confirmed	R-2 (middle)	Neg	
16-Nov-20	Short-Term Deposits	Confirmed	R-2 (high)	Neg	

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