



# Banca Popolare di Sondrio

Società cooperativa per azioni - fondata nel 1871  
Sede sociale e direzione generale: I - 23100 Sondrio So - Piazza Garibaldi 16  
Iscritta al Registro delle Imprese di Sondrio al n. 00053810149  
Iscritta all'Albo delle Banche al n. 842  
Capogruppo del Gruppo bancario Banca Popolare di Sondrio, iscritto all'Albo dei Gruppi bancari al n. 5696.0  
Iscritta all'Albo delle Società Cooperative al n. A160536  
Aderente al Fondo Interbancario di Tutela dei Depositi  
Codice fiscale e Partita IVA: 00053810149  
Capitale Sociale € 1.360.157.331 - Riserve € € 983.893.092  
(dati approvati dall'Assemblea dei soci del 27/4/2019)

## PRESS RELEASE

### **Fitch Ratings confirms Banca Popolare di Sondrio's Long-Term Issuer Default Rating of BB+ and maintains the Rating Watch Negative (RWN).**

Today the credit rating agency Fitch Ratings, in the process of the annual review, has confirmed Banca Popolare di Sondrio's Long-term Issuer Default Rating of BB+, maintaining the Rating Watch Negative assigned with the rating action of 24 March 2020.

Please find attached the document published by Fitch Ratings.

Sondrio, 19 May 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 will prevail.*



## RATING ACTION COMMENTARY

# Fitch Maintains Banca Popolare di Sondrio on RWN

Tue 19 May, 2020 - 11:58 AM ET

Fitch Ratings - Milan - 19 May 2020: Fitch Ratings has maintained Banca Popolare di Sondrio's (Sondrio) 'BB+' Long-Term Issuer Default Rating (IDR) and 'bb+' Viability Rating (VR) on Rating Watch Negative (RWN).

A full list of rating actions is detailed below.

## KEY RATING DRIVERS

### IDRS, VR AND SENIOR PREFERRED DEBT

Sondrio's Long-Term IDR, VR, deposit and debt ratings have been maintained on RWN to reflect uncertainties over the completion of some meaningful doubtful loan disposals planned by the bank this year, which, if completed, could offer some protection to the bank's asset quality from potential deterioration.

In assessing Sondrio we have also considered i) its less diverse business model than higher-rated peers', and whose ability to generate revenue is likely to come under pressure; ii) greater execution challenges in the weaker operating environment, iii) high capital encumbrance from unreserved impaired loans and a large exposure to

Italian sovereign bonds, which results in counterparty risk concentration and iv) the link between sovereign risk and the bank's funding profile and market access.

The ratings of Sondrio also reflect its adequate franchise in its regions of operations, which results in stable customer deposits underpinning a sound funding and liquidity profile.

Under Fitch's forecasts, Italy's GDP is likely to contract 8% in 2020 before seeing a partial recovery of 3.7% in 2021. However, risks to this baseline forecast are tilted to the downside, as we assume that coronavirus can be contained in 2H20, leading to a fairly strong economic rebound in 2021. However, the strength of the recovery beyond 2021 is highly uncertain, given the underlying weaknesses of the economy and Italy's poor performance following the global financial crisis, with only around half of the lost output regained by 2012.

Sondrio enters the economic downturn with a gross impaired loan ratio of over 12% at end-1Q20, which is high by domestic and international standards and a rating weakness. Even if the bank is able to complete the doubtful loan disposals according to plan by 2020, its impaired loan ratio would remain higher than the industry average at end-2019. Although government-support schemes should provide some protection, the effect of the lockdown and downturn will lead to new impaired loans. In 1Q20, Sondrio further increased its doubtful loan coverage, which could mitigate the risk of lower prices for the doubtful loan sales than originally planned.

We believe that Sondrio's ability to generate revenue will weaken in the deteriorated economic environment with lower revenue and higher loan impairment charges likely to further affect the bank's already modest profitability.

While Sondrio's risk-weighted capital ratios (CET1 ratio of 15.3% at end-1Q20) are at the upper scale of domestic peers' and could withstand a certain amount of pressure from deteriorating asset quality, capital encumbrance from unreserved impaired loans is also in the upper scale (over 50% at end-1Q20), placing the bank in a comparatively weaker position to absorb severe shocks. In addition, capitalisation remains at risk from Sondrio's large Italian government bond holdings. Albeit reduced from its peak of over 300% of CET1 capital at end-1H18, Italian government bond holdings still represented a large 200% of CET1 capital at end-1Q20, one of the largest among medium-sized domestic peers'. Exposure could increase given the possibility of further investments in Italian sovereign debt as a result of a higher ECB funding utilisation.

The bank's funding and liquidity profile is sound. Customer deposits have been stable, benefiting from strong client relationships. Funding sources are increasingly diversified due to its access to both secured and unsecured wholesale funding. Sondrio's ability to access the debt market at reasonable costs will diminish following Italy's recent downgrade due to reduced investor appetite for Italian bank risk. Liquidity also remains sound due to adequate buffers of unencumbered eligible assets and access to ECB financing, which we expect to increase.

Sondrio's Short-Term IDR of 'B' is in line with our rating correspondence table for banks with 'BB+' Long-Term IDRs.

## SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that, although external support is possible, it cannot be relied upon. Senior creditors can no longer expect to receive full extraordinary support from the sovereign in the event that the bank becomes non-viable.

The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for the resolution of banks that requires senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

## SUBORDINATED DEBT

The subordinated debt of Sondrio is notched down twice from its VR for loss severity to reflect poor recovery prospects. No notching is applied for incremental non-performance risk because write-down of the notes will only occur once the point of non-viability is reached and there is no coupon flexibility before non-viability.

## DEPOSIT RATINGS

Sondrio's long-term deposit rating of 'BBB-' (RWN) is one-notch above the bank's Long-Term IDR to reflect the protection offered by lower-ranking senior preferred and tier 2 debt. The one-notch uplift also reflects our expectation that the bank will maintain sufficient buffers, given the need to comply with minimum requirement for own funds and eligible liabilities.

Its short-term deposit rating of 'F3' (RWN) is in line with our rating correspondence table for banks with 'BBB-' long-term deposit ratings.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to negative rating action/downgrade:

If Sondrio is unable to reduce its legacy doubtful loans as planned in the coming months, or the envisaged disposals are subject to significant delays, the ratings would likely be downgraded to reflect the bank entering the downturn with particularly weak asset quality.

Sondrio's IDRs, VR and deposit ratings are also sensitive to the depth and duration of the economic crisis caused by the pandemic and its impact on the bank's financial profile. If an economic recovery in Italy is delayed, resulting in an extended period of damage to the bank's asset quality, earnings and potentially capital, which would be difficult to restore in a reasonably short time frame, the ratings could be downgraded.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

If the bank is able to complete the doubtful loan disposals as planned, reducing some of the short-term pressure on its ratings, the RWN could be removed and the ratings affirmed with an Outlook that would reflect the bank's circumstances and prospects at that point in time.

While rating upside is currently limited, Sondrio's ratings could be upgraded on evidence of a stronger and more stable operating environment, resulting in a material reduction of impaired loans. This would ultimately reduce capital at risk from unreserved impaired loans, assuming risk-weighted capital ratios remain reasonably strong and better operating profitability prospects.

## **SUPPORT RATING AND SUPPORT RATING FLOOR**

An upgrade of the Support Rating and upward revision of the Support Rating Floor of Sondrio would be contingent on a positive change in the sovereign's propensity to support the bank. In Fitch's view, this is highly unlikely, although not impossible.

## SUBORDINATED DEBT

The subordinated debt's rating is primarily sensitive to changes in the VR, from which it is notched. The rating is also sensitive to a change in the notes' notching, which could arise if Fitch changes its assessment of their non-performance relative to the risk captured in the VR.

## DEPOSIT RATINGS

The deposit ratings are primarily sensitive to changes in the banks' Long-Term IDR. The long-term deposit rating is also sensitive to a reduction in the size of the senior and junior debt buffers.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the

entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY/DEBT	RATING		
Banca Popolare di Sondrio-Societa' Cooperativa per Azioni	LT IDR	BB+	Rating Watch Maintained
	ST IDR	B	Affirmed
	Viability	bb+	Rating Watch Maintained
	Support	5	Affirmed
	Support Floor	NF	Affirmed
● subordinated	LT	BB-	Rating Watch Maintained

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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[Dodd-Frank Rating Information Disclosure Form](#)

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Banca Popolare di Sondrio-Societa' Cooperativa per Azioni

EU Issued

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