

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 € 1,253,388,214
(data approved by the Shareholders' Meeting of 11/5/2021)

PRESS RELEASE

Banca Popolare di Sondrio:
Dbrs Morningstar confirms the Long-Term Issuer Rating at the investment grade level "BBB low"; the Trend positively revised to "Stable" from "Negative".

Please note that today the credit rating agency DBRS Morningstar, at the end of its annual review process, confirmed all the ratings previously assigned to Banca Popolare di Sondrio. At the same time the rating on the outlook (Trend) has been changed to "Stable" from "Negative". The agency also assigned, for the first time, a rating to subordinated debt, placing it at "BB", with a Stable Trend.

Below are the details of the ratings 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 Trend reflects the rating agency's appreciation of how the bank has dealt with the economic fallout of the pandemic situation, while also managing since 2020 to reduce impaired loans and continuing to show good coverage levels. The favourable review also takes due account of the recent improvement in the bank's earnings.

The press release issued by DBRS Morningstar is attached.

Sondrio, 15 November 2021

BANCA POPOLARE DI SONDRIO SCPA

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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.

DBRS Morningstar Revises Trend on Banca Popolare di Sondrio to Stable, Confirms BBB (low) Long-Term Issuer Rating and Assigns “BB” Sub Debt Rating

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). 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 ratings has been revised to Stable, from Negative. In addition, DBRS Morningstar also assigned a subordinated debt rating of “BB” with Stable Trend. DBRS Morningstar expects that any future issuance by BPS of Subordinated Debt would be rated at this level. The “BB” rating is two notches below BPS’s Long-Term Issuer Rating and Long-Term Senior Debt rating, in line with the Framework set out in DBRS Morningstar’s “Global Methodology for Rating Banks and Banking Organisations”, dated 19 July 2021. DBRS Morningstar has also maintained the Intrinsic Assessment (IA) at BBB (low) and the Support Assessment at SA3. A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

The change of the trend to Stable reflects our view that BPS has successfully managed through the economic disruption caused by the COVID-19 pandemic, boosted by the reduction in Non-Performing Loans (NPLs) since 2020, and the good coverage ratios. DBRS Morningstar views BPS as being well placed to absorb any potential asset quality deterioration that could be driven by the ending of the support provided by the moratoria schemes. In addition, the change in the trend takes into account the improved earnings in recent periods.

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), following the securitisation of around EUR 1.4 billion of NPLs in 2020. The ratings also incorporate the Bank’s relatively small national 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.

Nonetheless, the ratings still take into account the Bank's modest, albeit resilient, profitability, the still high levels of NPEs compared to the European average and potential challenges associated with the Bank's pending legal transformation into a joint-stock company by end-2021.

RATING DRIVERS

An upgrade of the ratings would require a further reduction in the NPE stock while maintaining solid capital levels, as well as a sustained improvement in profitability levels.

A sustained deterioration in asset quality or profitability levels would lead to a downgrade of the ratings.

RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Moderate/Weak

BPS is a medium-sized mutual bank (Banca Popolare) focused on retail and commercial banking. Based in Sondrio (Lombardy), the Bank had EUR 53.3 billion in total assets as of end-September 2021 and 370 branches, 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 Italy in the public administration payment systems. BPS's 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.

Earnings Combined Building Block (BB) Assessment: Moderate/Weak

BPS's profitability deteriorated in 2020 due to the low interest rate environment and the high cost of risk stemming from the COVID-19 related provisioning costs. However, profitability metrics have now returned closer to pre-pandemic levels, in particular through a lower cost of risk. BPS will continue to face earnings challenges stemming from the low interest rate environment and possible asset quality deterioration. BPS reported net attributable income of EUR 201.5 million in 9M 2021 compared to EUR 64.5 million 9M 2020. This was mainly driven by much higher revenues and lower provisions despite higher operating expenses. Total revenues increased 23.5% YoY, primarily due to higher results from financial operations as compared to 9M 2020. Operating expenses remained well controlled YoY and the cost-income ratio improved to 53.4% in 9M 2021 from 64.1% for the same period a year ago. Loan loss provisions (LLP) declined over 50% in 9M 2021 YoY to EUR 91.2 million compared to EUR 140.6 million, absorbing 23% of Income before Provisions and Taxes (IBPT). The Bank's cost of risk stood at 40 bps in 9M 2021 as compared to 65 bps in 9M 2020.

Risk Combined Building Block (BB) Assessment: Moderate/Weak

BPS's asset quality has improved in 2020 and 9M 2021 following two securitisations totalling EUR 1.4 billion. As a result, the total stock of gross non-performing exposures (NPEs) decreased to EUR 2.2 billion at end-September 2021 from EUR 3.7 billion at end-2019 and the gross NPE ratio improved to 7.0% from 12.6% at end-2019. We expect the Bank to execute similar securitisations in the near future. While asset quality remains weaker compared to some other European banks, we view the reduction in legacy NPEs as providing headway to absorb the potential asset quality deterioration stemming from the end of support measures.

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

The Bank has a solid funding and liquidity position, underpinned by its large and stable retail deposit franchise. At end-September 2021, customer deposits accounted for 71% of the bank's total funding. This has reduced from the 80% level at end-2019, mainly due to the increase in central bank deposits, especially TLTRO 3 funding amid the COVID-19 crisis. At end-September 2021, the Bank's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) were well above regulatory requirements.

Capitalisation Combined Building Block (BB) Assessment: Moderate

DBRS Morningstar views the Bank's capital as remaining pressured by the large, albeit reduced, stock of unreserved NPEs but considers the Bank to have ample cushions over minimum regulatory requirements. The CET1 ratio (fully loaded) was 16.4% at end-September 2021 up modestly from 16.3% at end-2020. The fully loaded total capital ratio stood at 18.2% at end-September 2021 compared to 18.7% at end-2020, and the phased-in CET1 ratio was 16.5% and the phased-in total capital ratio stood at 18.3% at end-September 2021. We view positively that BPS maintains an ample buffer above its regulatory minimum capital requirements, including 784 bps above the CET1 and 483 bps over the Total Capital requirements.

Further details on the Scorecard Indicators and Building Block Assessments can be found at: <https://www.dbrsmorningstar.com/research/388025>.

ESG CONSIDERATIONS

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 at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (19 July 2021) <https://www.dbrsmorningstar.com/research/381742/global-methodology-for-rating-banks-and-banking-organisations>. Other applicable methodologies

include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (3 February 2021) <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

The sources of information used for this rating include Company Documents, BPS H1 2021 Interim Report, BPS 2016-2020 Annual Reports, BPS 9M 2021 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>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/388024>.

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

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Rating Committee Chair: Ross Abercromby - Managing Director - Global FIG

Initial Rating Date: November 18, 2019

Last Rating Date: November 16, 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	Attributes
15-Nov-21	Long-Term Issuer Rating	Trend Change	BBB (low)	Stb	EU U
15-Nov-21	Short-Term Issuer Rating	Trend Change	R-2 (middle)	Stb	EU U
15-Nov-21	Long-Term Deposits	Trend Change	BBB	Stb	EU U
15-Nov-21	Long-Term Senior Debt	Trend Change	BBB (low)	Stb	EU U
15-Nov-21	Short-Term Debt	Trend Change	R-2 (middle)	Stb	EU U
15-Nov-21	Short-Term Deposits	Trend Change	R-2 (high)	Stb	EU U
15-Nov-21	Subordinated Debt	New Rating	BB	Stb	EU U

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